

Executive summary

Business dynamics plays an important role not only as a driver of job creation but also as an engine of reallocation and productivity growth. This book aims at providing new evidence on business dynamics from different countries and at shedding new light on the heterogeneous responses of firms to economic shocks, with a particular focus on the impact of the last decade's global financial crisis. All chapters in this book highlight the importance of going beyond the average firm paradigm when analysing business dynamics, accounting for different firm characteristics such as size, age, ownership and trade status.

The analysis of the Brazilian business sector, in Chapter 2, focuses on the statistical properties of establishment-level employment dynamics and highlights that younger businesses are characterised by both disproportionately high employment growth rates and high exit rates. This corroborates empirical evidence found for other countries that participate in a cross-country distributed microdata project on business dynamics co-ordinated by the OECD: the DynEmp project. Furthermore, the findings show that small establishments in Brazil are born very small and are not able to reach the scale of mid-sized establishments, even though they may grow fast at the beginning of their activity, and they tend to die early. Relatedly, the authors also show the existence of a “missing middle” in the Brazilian formal sector, i.e., the middle part of the business size distribution is thinner. The magnitude of this phenomenon appears larger in Brazil than in other Latin American or Asian countries for which comparison in the manufacturing sector is available. For policy makers it is important to understand the role of a country's framework conditions and the effectiveness of targeted support policies can explain these patterns. For these reasons, in depth policy evaluations within countries and cross-country analysis in the lines of the OECD DynEmp project are key for providing the relevant evidence base.

To fully understand the dynamics of business creation and growth, one needs to know whether businesses grow through the creation of new jobs within the firm (organic growth) or whether their expansion relies on mergers or acquisitions (non-organic growth). Chapter 3 focuses on this issue and quantifies the role of mergers and acquisitions for employment dynamics in the country. Findings suggest that domestic acquisitions and intra-industry acquisitions have negative effects on employment in target firms, which are partially offset by job creation in Belgian acquiring firms. However, in the case of inter-industry acquisitions, the acquisition of a Belgian target by a foreign firm appears to have a positive impact on employment in the Belgian target. Thus, acquisitions seem instrumental in achieving high growth, but young Belgian firms appear to be less inclined to acquire other firms than young foreign firms to acquire domestic firms.

The DynEmp project has documented a change in the patterns of business dynamics over the business cycle. The sharp increase in gross job destruction and the drop in gross job creation that occurred in the 2008-09 biennium contracted only partially over the 2009-10

biennium, with creation and destruction rates eventually aligning to pre-crisis levels during the following two-year period. Forthcoming OECD evidence demonstrates that only a few countries have shown a strong resilience to the global financial crisis, suggesting that the crisis' effects on start-ups are probably long-lasting.

Results for the United Kingdom concentrate on the dynamics of the stocks of firms and jobs, using an intuitive but very effective decomposition framework that allows separately analysing births, deaths and "continuing" firms. The findings highlight the importance of the variation in firm births, especially over the global financial crisis, and the relatively limited variation in average jobs per firm. The distinctive feature of the global financial crisis in the United Kingdom has been a collapse in business entries, which negatively affected the stock of continuing firms in the following year, leading to job destruction. Results suggest an important policy message: "today's start-ups are tomorrow's continuing firms".

New Zealand's results focus on the dynamics of employment adjustments during the 2000s, concentrating in particular on the aftermath of the global financial crisis in the country. Findings highlight the existence of significant heterogeneity across firms, both before and after the crisis, not only in the size of output shocks but also in the amount of employment adjustments and in the size of worker flows resulting from such adjustments. The analysis links the labour market policy settings in a given country and the level of that country's resilience to cyclical shocks of different intensity, with a particular focus on the effects of the financial crisis on worker flows and firm exit rates. Results confirm that worker flows significantly lowered during the crisis in New Zealand, but do not find support for higher exit rates. The chapter provides evidence that a labour market that is resilient to cyclical shocks – thanks to smoothing policies – may not be suited to respond to shocks that require significant reallocation of employment, which would need a policy mix facilitating retraining, job turnover and reallocation, as well as geographic and industry mobility.

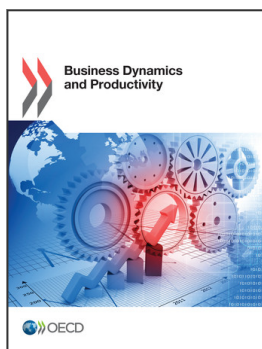
Costa Rica's evidence focuses on the labour market adjustments in the country in the aftermath of the global financial crisis, where increased unemployment seems to reflect structural change and a mismatch between labour supply and demand. Despite Costa Rica being still characterised by high shares of employment in manufacturing and agriculture, the country is increasingly transforming into a service-oriented economy. The analysis highlights that business dynamics for firms of different ages and sizes in Costa Rica depends on their sector of activity and on whether they are engaged in international trade. Exporting micro, small and medium-sized enterprises (MSME) are growing faster than those focusing on the domestic market; and those operating within the Free Trade Zone regime are more likely to growth than firms outside the regime. Most exporting MSMEs in services increased employment, while this share has been more limited in agriculture and manufacturing.

Results for Canada concentrate on the complex process of firm growth, analysing simultaneously how different dimensions of such a process – namely employment, sales, profits and productivity – interact. Exploiting a unique database that allows focusing on organic growth, the results highlight that the median firm grows very little according to all outcome variables considered. The findings also suggest that sales growth appears to drive subsequent growth in all other variables. Profits present a similar pattern but at a lower level. When one focuses on different firm size and age classes, profits seem to have a comparatively greater effect on growth for smaller and younger firms, but such effect remains small.

By applying a novel decomposition methodology, results for Norway quantify the contributions to employment and labour productivity growth from different sectors and

different firms. The authors find that the decline in productivity growth observed at the beginning of the 2000s is related to the strong employment growth via entry in some services sectors with low initial productivity levels. An explanation for the productivity slowdown in the country may be sought in the growing role of wholesale and retail trade and information and communication, combined with the decline of manufacturing. Large continuing firms are the main contributors to labour productivity growth, but they contribute little or negatively to employment growth, with new jobs being created mainly by entrants and SMEs. Exporters contribute similarly to aggregate productivity growth and employment growth, whereas non-exporting firms tend to contribute gradually less to productivity growth but remain the largest contributors in terms of employment growth.

Finally, the evidence for Japan focuses on the cleansing effects of economic crises during the last 20 years of the country's economic cycle. By considering four crisis periods, the findings show that during these crises labour inputs and productivity decreased sharply, while in the recovery periods following the crises labour inputs did not increase despite productivity increases. The results further focus on the effect of the crises on within-industry reallocation and show that the labour inputs reallocation has been productivity-enhancing in Japan. Only in the case of the global financial crisis the productivity-enhancing reallocation mechanism was not strengthened by the downturn. Interestingly, the universal nature of the global financial crisis is considered a possible explanation of this result for Japan.



From:
Business Dynamics and Productivity

Access the complete publication at:
<https://doi.org/10.1787/9789264269231-en>

Please cite this chapter as:

OECD (2017), "Executive summary", in *Business Dynamics and Productivity*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264269231-3-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.