

2017 THE KAUFFMAN
INDEX

growth entrepreneurship

STATE TRENDS

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Ewing Marion Kauffman Foundation

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Foreword

By Bobby Franklin

President and CEO

National Venture Capital Association

Emerging, high-growth companies play an integral role in our economy. Young companies create an average of 3 million new jobs a year and have been responsible for almost all net new job creation in the United States in the last forty years. At the center of it all is venture capital, which has played an integral role in helping to grow some of the most iconic American companies and, in some cases, helping to create entire new industries. In addition to the innovative products and services that have transformed our society and shaped our lives, many VC-backed companies mature into large, public companies that have profound effects on the economy. In fact, between 1974 and 2015, nearly half of all companies that went public were venture-backed. Amazingly, those same companies were responsible for 85 percent of all R&D spending during that period.¹

A misperception has taken hold that you have to be an entrepreneur living in Silicon Valley, New York City, or Boston to attract venture investment and successfully scale and grow your company. Nothing could be further from the truth. Entrepreneurship is alive in all corners of the United States, with pockets of entrepreneurial innovation sprouting up across the country at an increasing rate. In fact, entrepreneurs in all fifty states and the District of Columbia raised venture funding in 2016.²

California, Massachusetts, and New York attract a disproportionate share of venture capital

investment, accounting for 75 percent of U.S. venture dollars invested in 2016.³ However, if you look at it by the number of deals, the picture looks quite different, with California, Massachusetts, and New York combining for only 52 percent of venture capital deals in 2016.⁴

This is an important distinction, because all too often the strength of an entrepreneurial ecosystem is judged by the amount of capital deployed to startups in that ecosystem. This can be misleading, especially in the era of unicorns and \$1 billion-plus funding rounds that drive up the total amount of capital invested. It also ignores other important benchmarks that measure the strength of an ecosystem.

As detailed in this report, the rate of startup growth in the first five years of operation is above pre-recession levels. Startups turning five years old in 2016 grew an estimated 75 percent, an increase over 2015. Interestingly, the five metros with the highest levels of growth by revenue and employment do *not* include Silicon Valley, Boston, or New York. Washington, D.C.; Austin, TX; Columbus, OH; Nashville, TN; and Atlanta, GA, round out the metro areas with the highest levels of growth entrepreneurship. Of the largest states for venture capital investment, Massachusetts is the only one that makes the top five ranking of states for highest levels of growth entrepreneurship, coming in fourth behind Virginia, Georgia, and Maryland, with Texas rounding out the top five. What this shows us is that, while Silicon Valley, Boston, and New York City tend to grab national headlines, other areas of the country have been flying below the radar, quietly growing their ecosystems and nurturing entrepreneurial activity in their backyards.

The spread of entrepreneurial activity isn't occurring in the United States alone. Countries

1. Gornall, W., and I. Strebulaev. "The Economic Impact of Venture Capital: Evidence from Public Companies." November 2015.

2. PitchBook-NVCA Venture Monitor.

3. Ibid.

4. Ibid.

What this shows us is that, while Silicon Valley, Boston, and New York City tend to grab national headlines, other areas of the country have been flying below the radar, quietly growing their ecosystems and nurturing entrepreneurial activity in their backyards.

around the world have taken notice and are replicating our playbook to develop their own ecosystems—and it's working. Twenty years ago, U.S.-based startups attracted more than 90 percent of global venture capital investment. Ten years ago, our share shrank to 81 percent and, astonishingly, it slipped to 54 percent last year.⁵ Truth be told, the pie is getting bigger, which is a good thing. But as the pie gets bigger, we want to ensure the United States' slice grows with it. That's where policymakers can play a big role and where the National Venture Capital Association works tirelessly to advocate for policies critical to ensuring the strength of our country's entrepreneurial ecosystem.

U.S. policymakers need to understand that we are in the throes of a global competition, with countries racing to develop entrepreneurial ecosystems that can serve as the backbone of their economies. To stay competitive, U.S. policymakers must consider what policy changes they can make to ensure we don't cede our leadership role.

Take tax reform, for example. For too long, discussions around tax reform in Washington, D.C., either have ignored entrepreneurship or been hostile to entrepreneurial activity. This needs to change. Policymakers need to understand how critical startups are to our economic competitiveness and consider what changes they can make to the tax code to support new company creation. Tax reform represents a huge opportunity to spur greater

economic activity for the country, and critical to that will be reprioritizing pro-entrepreneurship tax policy.

Another area in which policymakers can make a huge impact in strengthening our ecosystem is through immigration policy. The ingenuity and creativity of immigrant entrepreneurs who choose to build and grow their businesses in the United States is invaluable to the American economy, making it all the more baffling that we throw up so many roadblocks in the way of foreign-born entrepreneurs who want to come to this country to start new companies. This, too, needs to change.

Immigration reform and tax reform are just two of the many areas of policy NVCA is focused on that need to be addressed for the U.S. entrepreneurial ecosystem to remain in a leadership position. Complementing the Kauffman Foundation's Zero Barriers movement, NVCA also is focused on diversity and inclusion issues. Most recently, NVCA announced the launch of VentureForward as an ongoing sustained program to 1) expand opportunities for men and women of all backgrounds to thrive in venture capital, and 2) ensure everyone who works in this ecosystem has a welcoming professional culture and safe work environment. As our efforts continue, the Growth Entrepreneurship Index and all of the other data and research tools produced by the Kauffman Foundation will serve as important tools to track and measure progress.

5. PitchBook data.

The Growth Entrepreneurship Index is a composite measure of entrepreneurial business growth in the United States that captures growth entrepreneurship in all industries and measures business growth from both revenue and job perspectives.

State Growth Entrepreneurship Executive Summary

Growth entrepreneurship helps drive job creation, innovation, and vibrancy in the U.S. economy. Research indicates that high growth, particularly in young firms, is an especially significant contributor to job, output, and productivity growth (Haltiwanger et al. 2016). It is important to track the growth of new firms in order to understand the immediate economic benefits of this growth in terms of job creation, as well as the increased productivity and sharing of best practices that also are associated with growing and new firms, but are more difficult to quantify (Sarada and Miranda 2016).

The Kauffman Index of Growth Entrepreneurship is a composite measure of entrepreneurial business growth in the United States that captures growth entrepreneurship in all industries and measures business growth from both revenue and job perspectives. It includes three component measures of business growth: Rate of Startup Growth, Share of Scaleups, and High-Growth Company Density. These measures integrate comprehensive and timely data that cover the entire universe of the approximately 5 million employer businesses in the United States and a privately collected benchmark of growth businesses.

Much of the attention and discussion around growth entrepreneurship focuses on growth inputs, such as patents, venture capital funding, and valuations. While these inputs are important, we focus on measures of outputs—growth entrepreneurship’s direct contribution to the economy in terms of job creation and revenue growth.

In this report, we present trends in growth entrepreneurship for the fifty United States and analyze trends for states, looking at them in two cohorts: one for the twenty-five larger states by population and another for the twenty-five smaller states by population. Data on each state is benchmarked against the national average.

Nationally, the Growth Entrepreneurship Index—a measure of how much entrepreneurial businesses are growing—has increased, rebounding from the slump across different industries and geographies that followed the Great Recession. A principle driver of this year’s uptick in growth is the increase in the rate of startup growth: startups are growing faster in their first five years than they did in the past. Despite this good news, however, entrepreneurial growth in the United States—especially as measured by the number of companies reaching medium size or larger in terms of employment—is largely down from the levels experienced in the 1980s and 1990s. We show the national trend in the Growth Entrepreneurship Index in Figure 1, and we cover detailed trends across various growth indicators and high-growth industries in the *Kauffman Index of Growth Entrepreneurship | National Trends*.

At the metro level, high performers include perennial favorites such as Austin, TX, and San Jose, CA, as well as some places that are highlighted less often, such as Washington, D.C., Nashville, TN, and Atlanta, GA. Details regarding these cities and others are presented in the *Kauffman Index of Growth Entrepreneurship | Metropolitan Area and City Trends*.

Key Findings

The Growth Entrepreneurship Index increased in nearly two-thirds of all states, with Virginia leading among larger states and Utah leading the smaller states. The Growth Entrepreneurship Index rose in 2017 in thirty-one states, indicating a continued return of broad-based business growth. Among the twenty-five larger states, the Growth Entrepreneurship Index was highest for Virginia, Georgia, Maryland, Massachusetts, and Texas. Among the twenty-five smaller states, the Growth Entrepreneurship Index was highest for Utah, Hawaii, North Dakota, Nevada, and New Hampshire.

The Rate of Startup Growth, the first component of the Growth Entrepreneurship Index, varied widely across states. Among the twenty-five larger states, it ranged from 50.8 percent in South Carolina to 99.3 percent in Georgia. Among the

twenty-five smaller states, the Rate of Startup Growth ranged from -11.4 percent in Vermont to 126.2 percent in Hawaii. A negative rate of startup growth means the average surviving company in that state at five years old is smaller in staff size than the average firm was at its founding.

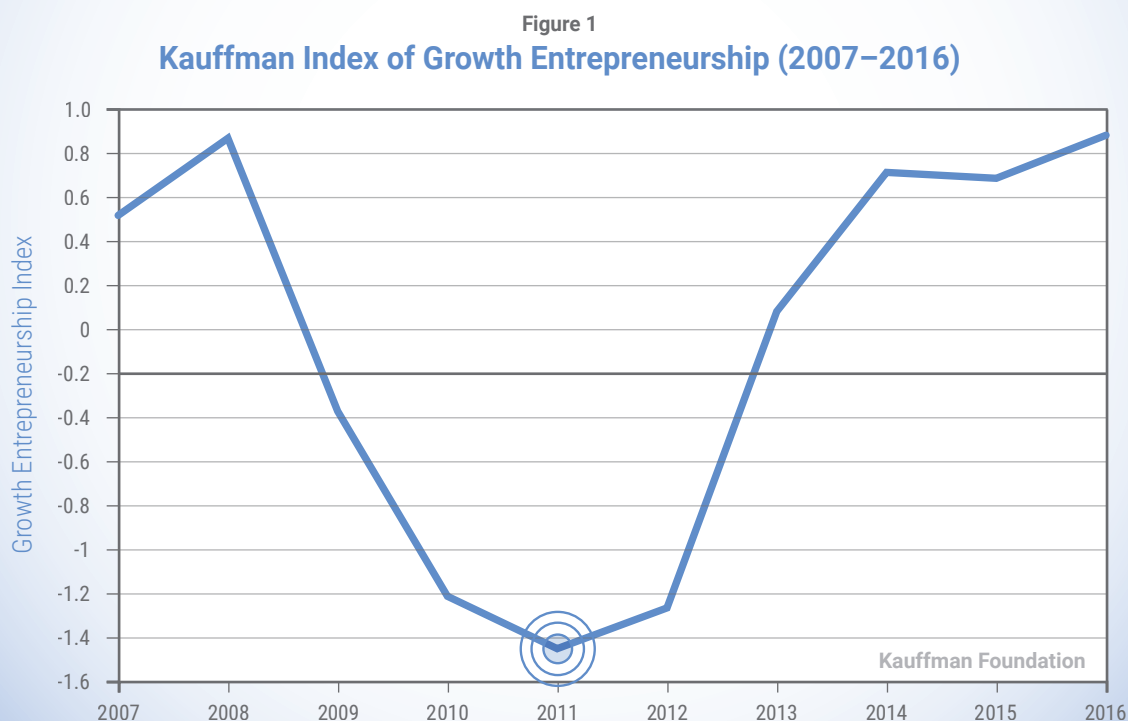
Share of Scaleups, the second component of the Growth Entrepreneurship Index, ranged from 0.9 percent in Michigan and Florida to 2.2 percent in Louisiana for the twenty-five larger states. Among the twenty-five smaller states, the Share of Scaleups ranged from 0.8 percent in Montana to 1.8 percent in North Dakota, Oklahoma, and Hawaii.

High-Growth Company Density, the third component of the 2017 Index, plateaued nationally. It ranged from 39.9 high-growth companies for every 100,000 employer businesses in Wisconsin to 208.3 in Virginia. In the smaller states, the High-Growth Company Density ranged from 7.3 high-growth companies for every 100,000 employer businesses in Alaska to 174.8 in Utah.

The density of venture capital-backed business exits was highest in 2016 in: 1) California, 2) Massachusetts, 3) New York, 4) Utah, and 5) Washington.



Growth entrepreneurship was high leading up to the Great Recession and fell for some time after the business cycle began to recover—with its lowest level of activity measured in 2011.



SOURCE: Kauffman Index of Growth Entrepreneurship, calculations from BDS and Inc. 500|5000.
For an interactive version, please see: www.kauffmanindex.org.

All three of these studies provide a spectrum of entrepreneurship measures from an industry-agnostic perspective and are based on data regarding entrepreneurial outputs—the results of new business activity, such as new companies, business density, and growth rates.

About the Kauffman Index of Entrepreneurship Series: A Big-Tent Approach to Entrepreneurship

Entrepreneurship is not a monolithic phenomenon; it includes many diverse and moving parts. Creating new businesses is a different economic activity from running small businesses, which in turn is different from growing businesses. The Kauffman Index of Entrepreneurship series seeks to measure each of these phases of new business development through three annual in-depth studies of entrepreneurship in the United States: the **Kauffman Index of Startup Activity**, the **Kauffman Index of Main Street Entrepreneurship**, and the **Kauffman Index of Growth Entrepreneurship**. Each study focuses on one of these phases of entrepreneurship at the national, state, and metropolitan levels.

The Startup Activity Index is an indicator of nascent entrepreneurship in the United States, concentrating on new business creation, market opportunity, and startup density. The Main Street Entrepreneurship Index measures the prevalence of small business ownership and the density of established, local small businesses. And the Growth Entrepreneurship Index focuses on the growth of entrepreneurial businesses, in terms of both revenue and employment.










While one might expect that certain patterns of nascent entrepreneurship seen in the Startup Activity Index in a given year would be reflected in the Main Street Entrepreneurship Index and the Growth Entrepreneurship Index in future years, these studies measure fundamentally different aspects of entrepreneurship and have few direct relationships. A region, for example, can have very high startup activity, but low growth entrepreneurship, or high levels of main street entrepreneurship but low levels of startup activity. High (or low) levels of activity in any one index do not necessarily result in or imply high (or low) levels of activity in the others.

All three of these studies provide a spectrum of entrepreneurship measures from an industry-agnostic perspective and are based on data regarding entrepreneurial outputs—the results of new business activity, such as new companies, business density, and growth rates. Each study is comprised of three component measures, and there are three reports issued as part of each study: one presenting national trends, another for state trends, and the last for trends in specific metropolitan areas. Table 1 summarizes the component measures included in each study.

While these studies represent extensive research and are the result of a good-faith effort to present a balanced perspective on entrepreneurship measurement, we recognize that entrepreneurship is a multifaceted and evolving phenomenon, and we expect that we may continue to revise and enhance the Kauffman Index in the future. All current and past reports, as well as data for specific locales, are available at www.kauffmanindex.org.

Ultimately, these studies offer insight into the people and businesses that contribute to America's entrepreneurial dynamism. And taken together, they present a holistic and nuanced view of the complex phenomenon of entrepreneurship in America.

Table 1
Summary of Components Used Across Reports

Startup Activity	Main Street Entrepreneurship	Growth Entrepreneurship
 <p>Rate of New Entrepreneurs The percentage of adults transitioning into entrepreneurship at a given point in time</p>	 <p>Rate of Business Owners The total number of business owners in a location at a given point in time</p>	 <p>Rate of Startup Growth The average growth of a cohort of new startups in their first five years</p>
 <p>Opportunity Share of New Entrepreneurs The percentage of new entrepreneurs driven primarily by "opportunity" vs. "necessity"</p>	 <p>Survival Rate of Firms The percentage of firms in operation throughout their first five years</p>	 <p>Share of Scaleups The number of businesses that started small and grew to employ at least fifty people by their tenth year of operation as a percentage of all businesses ten years and younger</p>
 <p>Startup Density The number of new employer businesses, normalized by population</p>	 <p>Established Small Business Density The number of businesses five years old and older with less than fifty employees, normalized by population</p>	 <p>High-Growth Company Density The number of fast-growing companies with at least \$2 million in annual revenue, normalized by business population</p>



Rate of Startup Growth



Share of Scaleups



High-Growth Companies

Understanding Growing Companies: The Growth Entrepreneurship Index and Its Components

Entrepreneurship can take many forms, and businesses grow in different ways. Some grow rapidly and very publicly—think Uber or any of the prominent tech unicorns. Others grow for longer periods without drawing attention, often in industries or regions that are less visible to the general public and media. Chobani, for example, is not a stereotypical growth company, but its Greek yogurt has become a household brand and the

company has more than \$1 billion in revenue and more than a thousand employees. Chobani was founded in 2005 in rural New York and originally funded with an SBA loan and no external investors (Ulukaya 2013). Its founder continued to be the sole owner even when Chobani became a billion-dollar company, and it was only relatively recently that others acquired ownership stakes. There are numerous other companies that achieve similar levels of growth, create millions of dollars in revenue, and, altogether, power hundreds of thousands of jobs—even though most people have never heard of them. Entrepreneur and investor Brad Feld calls these companies the “silent killers”—companies that reach multimillion-dollar revenues, but inspire little fanfare, are absent from media reports, and often are not based in the Bay Area (Feld 2011).



Rate of Startup Growth

- Serves as a proxy measure of business growth and startup traction in young businesses.
- Measures the average percentage growth of a cohort of new employer firms from the year they were founded through their first five years of operation by comparing the average employment size of all startups founded in a given year to the average employment size of the surviving companies in their fifth year of operation.

For example, if a cohort of companies in a given state had an average of 4.7 employees at the time of their founding and an average of 8.0 employees in their fifth year of operation, the Rate of Startup Growth for that state in that year would be 70.3 percent, meaning that, on average, companies in that state grew 70.3 percent between the time of their founding and their fifth year of operation.

- Includes companies in all industries.
- Calculated using data from the U.S. Census Bureau's Business Dynamics Statistics.

Because companies take numerous different paths to growth, any measure of the phenomenon must incorporate multiple indicators. The Growth Entrepreneurship Index, a novel gauge for measuring business growth in the United States, is an equally weighted index of three normalized measures of entrepreneurial growth. Each of these components and the data sources used to calculate them are described below.

1. **Rate of Startup Growth** measures the average employment growth of a cohort of startups in the United States in their first five years. The Rate of Startup Growth captures employer businesses regardless of industry, and it calculates their average growth as a cohort of businesses during their first five years of operation—from the founding year to year five. Startup businesses here are defined as firms less than one year old that employ at least one person besides the

owner. The Rate of Startup Growth is calculated based on data from the U.S. Census Bureau's Business Dynamics Statistics (BDS) and is taken from the universe of businesses with payroll tax records in the United States, as recorded by the Internal Revenue Service. This dataset covers approximately 5 million companies.

2. **Share of Scaleups** indicates the prevalence of employer firms ten years old and younger that start with fewer than fifty employees and grow to employ at least fifty people by their tenth year of operation. While the Rate of Startup Growth looks at the estimated average growth of a cohort of employer firms, the Share of Scaleups focuses exclusively on firms that reach fifty employees or more. The Share of Scaleups component is based on the same BDS data used for the Rate of Startup Growth.

Share of Scaleups

- Serves as a proxy measure of how many startups become scaleups.
- Measures the prevalence of companies that start small and become medium-sized businesses or larger by their tenth year of operation.

For example, if the Share of Scaleups for the United States were 1.1 percent, it would mean that approximately 1,100 out of every hundred thousand companies ten years old and younger started small and became medium-sized or larger businesses, defined as firms with at least fifty employees.

- Includes companies in all industries.
- Calculated using data from the U.S. Census Bureau's Business Dynamics Statistics.





High-Growth Company Density

- Measures the prevalence of high-growth companies. High-growth companies are defined here as private businesses with at least \$2 million in annual revenue and 20 percent annualized revenue growth over a three-year period.

For example, if the High-Growth Company Density for a metropolitan area were 84.7, it would mean that for every 100,000 employer businesses in that metro area, there were 84.7 high-growth firms.

- Includes companies in all industries.
- Calculated using data from the Inc. 500|5000 private dataset of fastest-growing companies in the United States and the U.S. Census Bureau's Business Dynamics Statistics.

The Growth Entrepreneurship Index improves over other possible measures of growth entrepreneurship in its timeliness, its dual approach of capturing both employee and revenue growth, its coverage of both young companies and more established private firms, and its inclusion of all types of business activity, regardless of industry.

3. **High-Growth Company Density** represents the prevalence of fast-growing private companies that have at least \$2 million in annual revenue and 20 percent annualized growth over a three-year period, which compounds to 72.8 percent after the three years. The calculations regarding high-growth firms in this component of the Index use Inc. 500|5000 data on the fastest-growing private companies in America in terms of revenue growth. These data include firms from a wide range of industries, including some high-growth companies that have multibillion-dollar revenues and explosive growth rates over the three-year period. Data used for the total number of employer firms in this calculation is from the BDS. While the other two components of the Index measure growth in terms of employment, the High-Growth Company Density component measures growth in revenue, an important factor to consider when analyzing growing firms because the relationship between employment growth and revenue growth is complex and is not always directly linked across industries.

The aggregation of these three distinct components into a single Growth Entrepreneurship Index statistic allows for a balanced and comprehensive measure of business growth that can be tracked over time.⁶ The Methodology and Framework section at the end of this report provides more detail regarding the datasets used and the calculations for each component and for the Growth Entrepreneurship Index overall.

The Growth Entrepreneurship Index may be used by local and national entrepreneurs, entrepreneurship supporters, and policymakers to understand growth in their geographies. It improves over other possible measures of growth entrepreneurship in its timeliness, its dual approach of capturing both employee and revenue growth, its coverage of both young companies and more established private firms, and its inclusion of all types of business activity, regardless of industry.

6. Please note that our methodology for calculating the Growth Entrepreneurship Index was updated in the last year. In the 2016 Growth Entrepreneurship Index, the first year in which this study was conducted, we had data from several different years and, therefore, we created an aggregate measure and assigned the most recent data point to 2016, the year of its publication. This year, we were able to create forecasts for the Rate of Startup Growth and Share of Scaleups such that we had data for each component for 2016. With this more consistent data, it made sense to change the Growth Entrepreneurship Index so that the data for each year reflects the underlying data for the components in that year. More information about this change is presented in the Methodology and Framework section.

State Trends in Growth Entrepreneurship

At the national level, the Growth Entrepreneurship Index increased in the last year, largely continuing the pattern of growth that began as the economy emerged from the Great Recession. A substantial increase in the Rate of Startup Growth fueled much of this year's increase in the overall Growth Entrepreneurship Index; startups appear to be growing faster in their first five years than they did in the past. Entrepreneurial growth in the United States, however—especially as measured by the number of companies reaching medium size or larger in terms of employment—is generally lower than it was in the 1980s and 1990s. National trends in the Growth Entrepreneurship Index are presented in Figure 1, and a discussion of more detailed trends across various growth indicators and high-growth industries can be found in the *Kauffman Index of Growth Entrepreneurship | National Trends*.

The Growth Entrepreneurship Index for most states mirrors the positive trajectory in the national Growth Entrepreneurship Index, with thirty-one states experiencing an increase in growth entrepreneurship activity in the last year. To facilitate comparisons across peer groups of states, we focus our analysis on two groups of states: the twenty-five larger states by population and the twenty-five smaller states by population. The twenty-five smaller states have a median population of 1.8 million people, with resident populations ranging from 500,000 residents to 4.5 million residents. The twenty-five larger states have a median population of 6.9 million people, with resident populations ranging from 4.5 million to about 38 million.

While the states are grouped by population, they tend to share an additional similarity: larger states are overwhelmingly urban, while smaller states are less so. Among the twenty-five

larger states, twenty-four states have populations that are at least 65 percent urban, and sixteen are among the twenty-five most urban states in the United States. Among the twenty-five smaller states, populations tend to be more dispersed. Twelve of these states have populations that are less than 65 percent urban, and just nine of them are among the twenty-five U.S. states with the highest shares of urban population.

Although most states experienced an increase in growth entrepreneurship activity compared to the previous year, changes in state rankings—which measure relative yearly performance across states—varied more significantly. Eighteen states ranked higher than they did last year, nine experienced no changes in rankings, and twenty-three ranked lower. Complete rankings are presented in Table 2 for larger states and Table 3 for smaller states.

Growth Entrepreneurship—Trends in Larger States

Virginia was the leader in growth entrepreneurship activity among the twenty-five larger states, followed by Georgia, Maryland, Massachusetts, and Texas. It is no coincidence that two of the top states contain the Washington, D.C., metro area—one of the metros with the highest growth entrepreneurship activity in the latest year.

Among these larger states, six ranked higher than they did last year, eight experienced no changes in rankings, and the remaining eleven ranked lower. The four large states that experienced the biggest increase in ranks in 2017 were Georgia, followed by Minnesota, New Jersey, and Ohio, which each moved up the ranking by six spots (See Table 2). The three states that experienced the largest decreases in ranks in 2017 were Wyoming, Mississippi, and Iowa.

The Growth Entrepreneurship Index for most states mirrors the positive trajectory in the national Growth Entrepreneurship Index, with thirty-one states experiencing an increase in growth entrepreneurship activity in the last year.



Virginia was the leader in growth entrepreneurship activity among the twenty-five larger states, followed by Georgia, Maryland, Massachusetts, and Texas.

Table 2
Larger States Rankings—Kauffman Index of Growth Entrepreneurship
Twenty-Five Larger U.S. States by Population

Rank 2017	State	Rank 2016	Change in Rank	Rate of Startup Growth	Share of Scaleups	High-Growth Company Density
1	Virginia	1	0	58.1%	1.71%	208.3
2	Georgia	11	9	99.3%	1.30%	124.5
3	Maryland	2	-1	68.8%	1.83%	102.8
4	Massachusetts	3	-1	76.9%	1.70%	100.0
5	Texas	4	-1	76.7%	1.85%	82.8
6	Arizona	5	-1	58.8%	1.57%	101.6
7	Ohio	13	6	60.2%	1.65%	85.1
8	Colorado	7	-1	74.1%	1.29%	96.9
9	Minnesota	15	6	79.5%	1.46%	73.7
10	Tennessee	14	4	76.0%	1.53%	71.2
11	Alabama	9	-2	66.6%	1.69%	66.0
12	Louisiana	6	-6	52.5%	2.16%	40.9
13	New Jersey	19	6	85.9%	1.21%	73.4
14	California	10	-4	68.1%	1.29%	88.9
15	Washington	18	3	74.3%	1.12%	87.9
16	South Carolina	12	-4	50.8%	1.64%	67.7
17	Illinois	17	0	65.8%	1.28%	76.6
18	North Carolina	8	-10	54.0%	1.52%	69.9
19	Pennsylvania	16	-3	59.5%	1.42%	64.2
20	Indiana	20	0	57.4%	1.51%	55.1
21	New York	21	0	70.5%	1.06%	67.1
22	Missouri	22	0	65.3%	1.23%	47.4
23	Wisconsin	23	0	50.8%	1.36%	39.9
24	Florida	24	0	53.2%	0.86%	77.0
25	Michigan	25	0	60.3%	0.91%	57.3

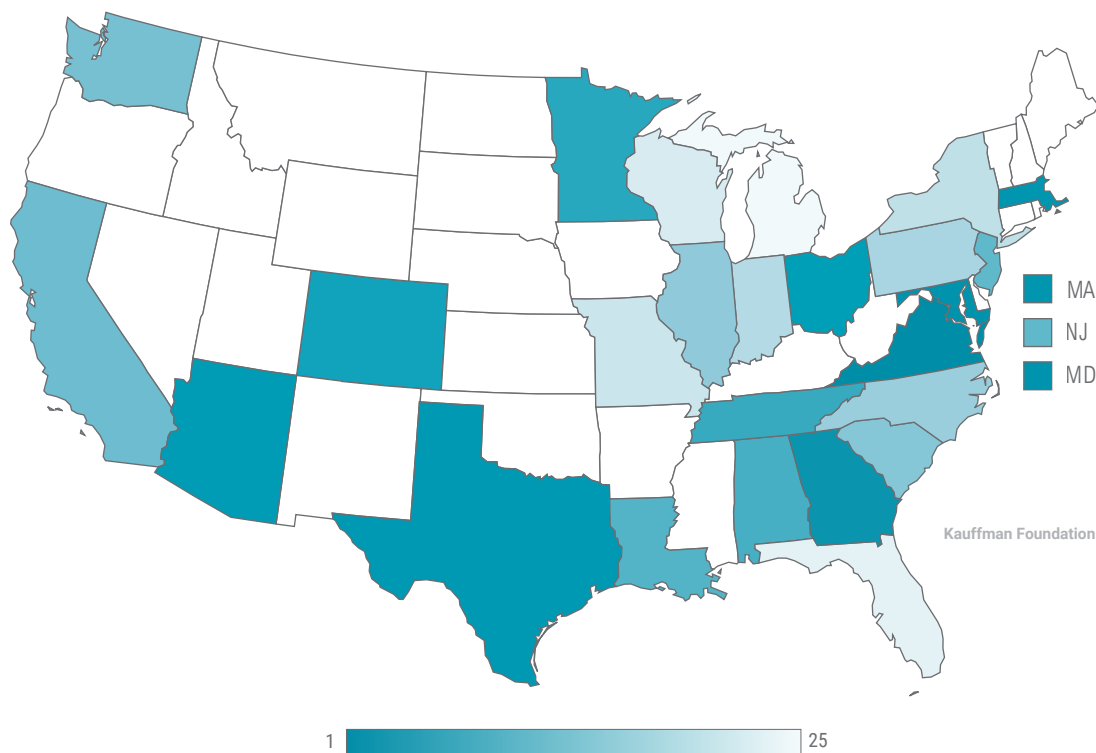
For an interactive version of the rankings, please see: www.kauffmanindex.org.

Among these larger states, six ranked higher than they did last year, eight experienced no changes in rankings, and the remaining eleven ranked lower.



The four large states that experienced the biggest increase in ranks in 2017 were Georgia, followed by Minnesota, New Jersey, and Ohio.

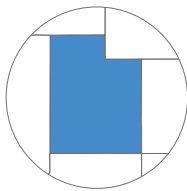
Figure 2
2017 Larger States Rankings | Kauffman Index of Growth Entrepreneurship



Growth Entrepreneurship—Trends in Smaller States

For the twenty-five smaller states in the country, Utah was top in growth entrepreneurship activity, followed by Hawaii, North Dakota, Nevada, and New Hampshire. Twelve states ranked higher than they did last year, one experienced no change in rankings, and the remaining twelve ranked lower.

The three smaller states that experienced the biggest increase in ranks in 2017 were Hawaii, Kentucky, and Arkansas. The three smaller states that experienced the biggest decrease in ranks in 2017 were Wyoming, Mississippi, and Iowa. Table 3 presents rankings for the twenty-five smaller states.



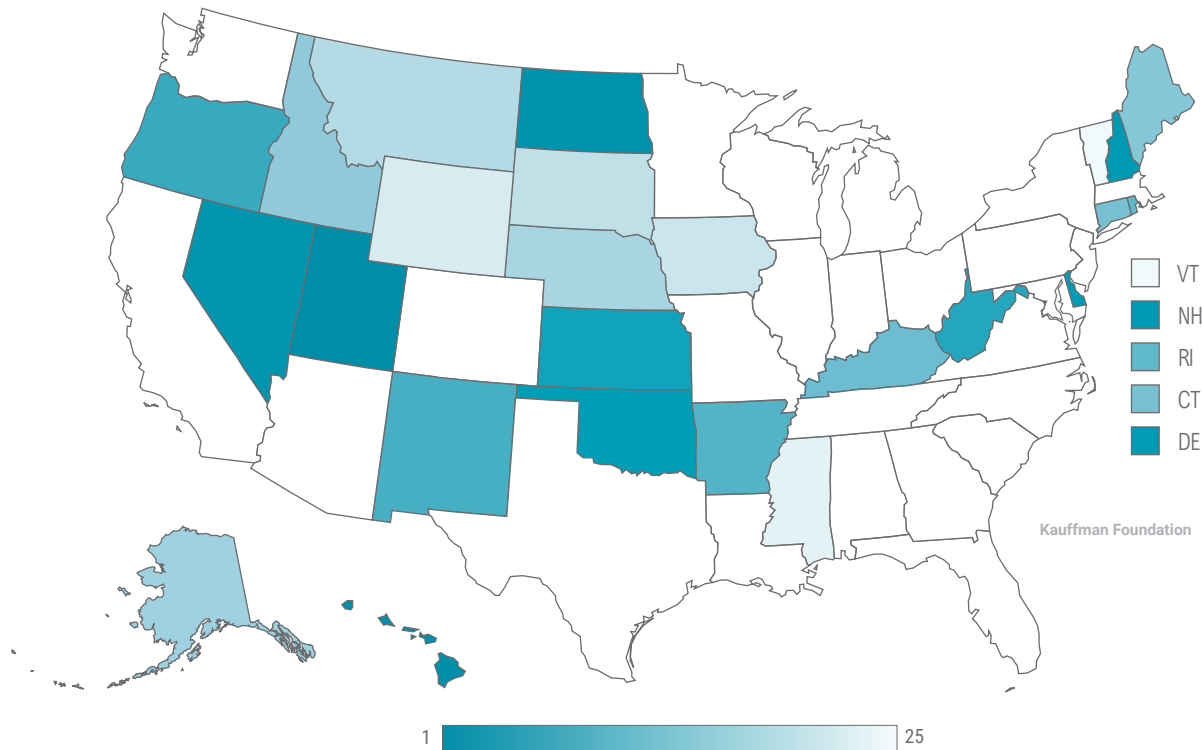
Utah was top in growth entrepreneurship activity, followed by Hawaii, North Dakota, Nevada, and New Hampshire.

Table 3
Smaller States Rankings—Kauffman Index of Growth Entrepreneurship
Twenty-Five Smaller U.S. States by Population

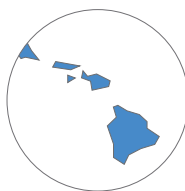
Rank 2017	State	Rank 2016	Change in Rank	Rate of Startup Growth	Share of Scaleups	High-Growth Company Density
1	Utah	1	0	77.5%	1.46%	174.8
2	Hawaii	11	9	126.2%	1.76%	26.8
3	North Dakota	4	1	69.1%	1.79%	39.9
4	Nevada	8	4	66.2%	1.56%	45.3
5	New Hampshire	2	-3	46.0%	1.56%	67.2
6	Delaware	3	-3	42.2%	1.50%	76.2
7	Oklahoma	6	-1	57.3%	1.77%	30.7
8	Kansas	5	-3	41.9%	1.61%	61.9
9	West Virginia	12	3	53.9%	1.74%	31.7
10	Oregon	15	5	70.8%	1.00%	70.0
11	New Mexico	7	-4	67.4%	1.49%	16.2
12	Arkansas	18	6	64.9%	1.46%	17.9
13	Rhode Island	9	-4	48.8%	1.62%	19.2
14	Kentucky	21	7	67.2%	1.09%	30.8
15	Connecticut	14	-1	48.1%	1.25%	37.9
16	Maine	20	4	67.8%	1.00%	28.7
17	Idaho	19	2	48.6%	1.11%	38.3
18	Alaska	22	4	82.6%	0.94%	7.3
19	Nebraska	17	-2	38.6%	1.17%	42.6
20	Montana	24	4	69.7%	0.85%	26.2
21	South Dakota	25	4	50.2%	0.89%	42.0
22	Iowa	16	-6	28.6%	1.29%	32.7
23	Wyoming	10	-13	39.9%	1.35%	12.9
24	Mississippi	13	-11	25.1%	1.35%	19.7
25	Vermont	23	-2	-11.4%	1.04%	12.6

For an interactive version of the rankings, please see: www.kauffmanindex.org.

Figure 3
2017 Smaller States Rankings | Kauffman Index of Growth Entrepreneurship



Twelve smaller states ranked higher than they did last year, one experienced no change in rankings, and the remaining twelve ranked lower.



The three smaller states that experienced the biggest increase in ranks in 2017 were Hawaii, Kentucky, and Arkansas.

Table 4
Combined All States List—Kauffman Index of Growth Entrepreneurship

Index 2017	State	Rate of Startup Growth	Share of Scaleups	High-Growth Company Density
7.3	Virginia	58.1%	1.71%	208.3
6.2	Utah	77.5%	1.46%	174.8
4.7	Georgia	99.3%	1.30%	124.5
4.1	Maryland	68.8%	1.83%	102.8
4	Massachusetts	76.9%	1.70%	100
3.8	Texas	76.7%	1.85%	82.8
3.8	Hawaii	126.2%	1.76%	26.8
2.7	Arizona	58.8%	1.57%	101.6
2.4	Ohio	60.2%	1.65%	85.1
2.4	Colorado	74.1%	1.29%	96.9
2.3	Minnesota	79.5%	1.46%	73.7
2.3	Tennessee	76.0%	1.53%	71.2
2.1	Alabama	66.6%	1.69%	66
2	Louisiana	52.5%	2.16%	40.9
1.7	New Jersey	85.9%	1.21%	73.4
1.7	California	68.1%	1.29%	88.9
1.5	North Dakota	69.1%	1.79%	39.9
1.4	Washington	74.3%	1.12%	87.9
1.2	South Carolina	50.8%	1.64%	67.7
1.1	Illinois	65.8%	1.28%	76.6
1.1	North Carolina	54.0%	1.52%	69.9
0.8	Nevada	66.2%	1.56%	45.3
0.8	Pennsylvania	59.5%	1.42%	64.2
0.7	New Hampshire	46.0%	1.56%	67.2
0.7	Delaware	42.2%	1.50%	76.2
0.6	Indiana	57.4%	1.51%	55.1
0.5	Oklahoma	57.3%	1.77%	30.7
0.4	Kansas	41.9%	1.61%	61.9
0.3	West Virginia	53.9%	1.74%	31.7
0.3	New York	70.5%	1.06%	67.1
0.2	Oregon	70.8%	1.00%	70
-0.2	Missouri	65.3%	1.23%	47.4
-0.5	New Mexico	67.4%	1.49%	16.2
-0.6	Arkansas	64.9%	1.46%	17.9
-0.8	Wisconsin	50.8%	1.36%	39.9
-0.8	Rhode Island	48.8%	1.62%	19.2
-0.9	Florida	53.2%	0.86%	77
-1.2	Michigan	60.3%	0.91%	57.3
-1.2	Kentucky	67.2%	1.09%	30.8
-1.4	Connecticut	48.1%	1.25%	37.9
-1.6	Maine	67.8%	1.00%	28.7
-1.8	Idaho	48.6%	1.11%	38.3
-1.9	Alaska	82.6%	0.94%	7.3
-1.9	Nebraska	38.6%	1.17%	42.6
-2.1	Montana	69.7%	0.85%	26.2
-2.3	South Dakota	50.2%	0.89%	42
-2.4	Iowa	28.6%	1.29%	32.7
-2.4	Wyoming	39.9%	1.35%	12.9
-2.9	Mississippi	25.1%	1.35%	19.7
-6	Vermont	-11.4%	1.04%	12.6

For an interactive version of the rankings, please see: www.kauffmanindex.org.



State Trends in Rate of Startup Growth

This first component of the Growth Entrepreneurship Index, the Rate of Startup Growth, captures the average employment growth of a cohort of startup businesses in their first five years of operation. Business dynamics during these early years of a new business are messy. Of the approximately 400,000 new employer businesses that have been created annually in the United States in recent years, around 45 percent survive their first five years of operation; the remaining 55 percent cease operations or are absorbed into other businesses. Researchers describe entrepreneurs' efforts to find their markets and certain businesses' continued operation and expansion as a process of experimentation (Kerr, Nanda, and Rhodes-Kropf 2014).

We present the Rate of Startup Growth, a measure of the growth during these tumultuous early years, from 1982 to 2014 online at KauffmanIndex.org. This measure varies across states, with greater variation among smaller states than among larger states.

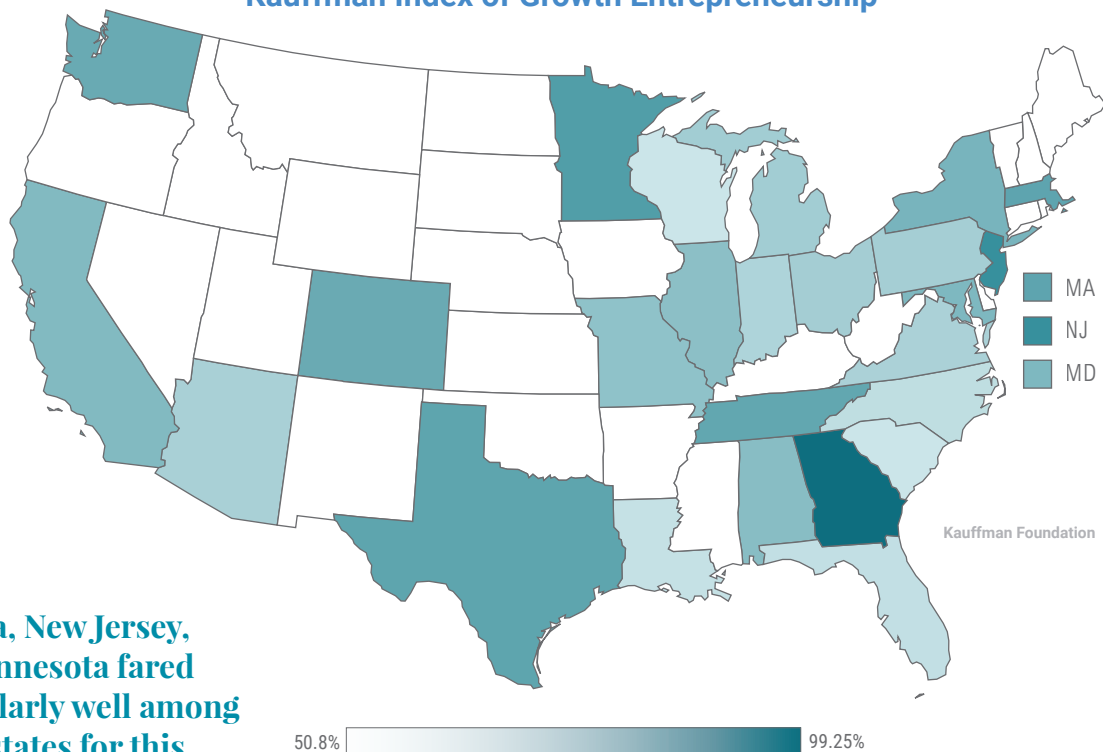
Rate of Startup Growth—Trends in Larger States

Among the twenty-five larger states, the Rate of Startup Growth ranged from 50.8 percent in South Carolina and Wisconsin to almost 100 percent in Georgia. This Georgia startup cohort born five years ago increased from 6.1 employees on average at the year of birth to 12.2 employees on average for surviving firms at their fifth year of operation—a growth of about 100 percent. In addition to Georgia, New Jersey and Minnesota fared particularly well among larger states for this component of the Growth Entrepreneurship Index. Figure 4 presents data for all twenty-five larger states.



Figure 4

2017 Rate of Startup Growth | Twenty-Five Larger U.S. States by Population Kauffman Index of Growth Entrepreneurship



Georgia, New Jersey, and Minnesota fared particularly well among larger states for this component of the Growth Entrepreneurship Index.

For an interactive version of the rankings, please see: www.kauffmanindex.org.

Rate of Startup Growth—Trends in Smaller States

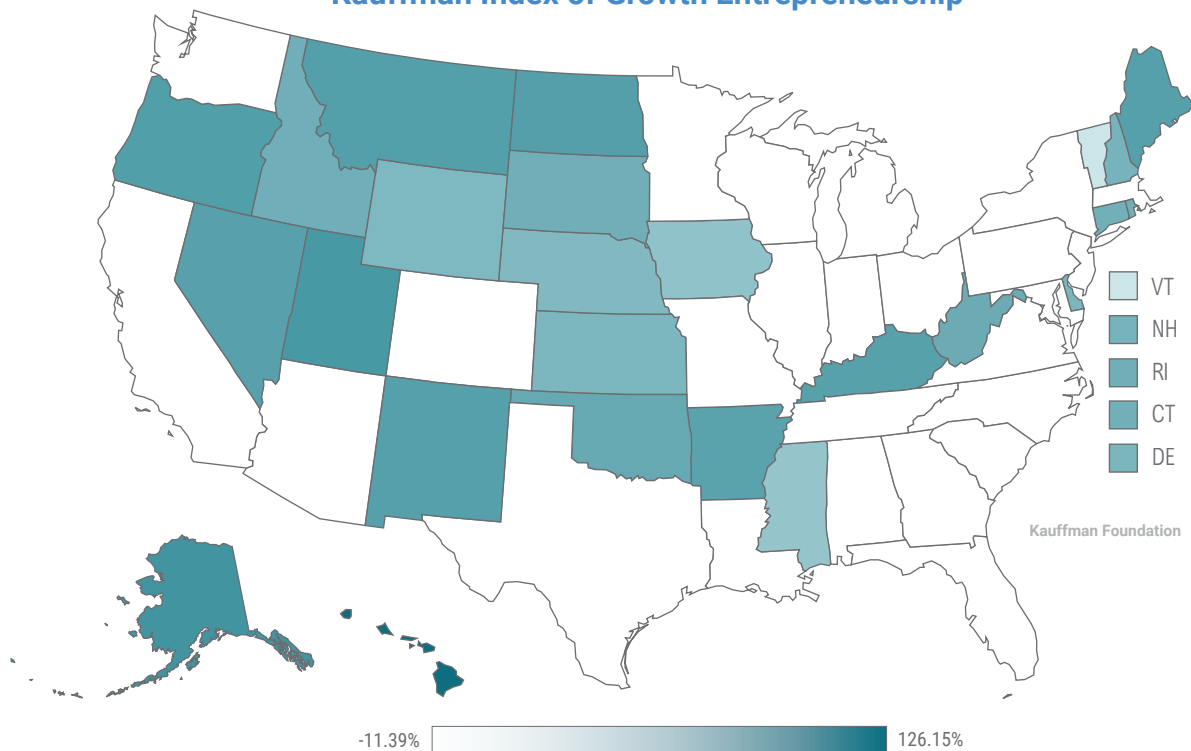
Among the twenty-five smaller states, the Rate of Startup Growth ranged from -11.4 percent in Vermont to 126 percent in Hawaii. A negative Rate of Startup Growth means that the average surviving company in that state has fewer employees

at five years old than the average firm has at the moment of birth. In Hawaii, the startup cohort born five years ago started with 5.5 employees on average at the year of birth, and surviving firms grew to 12.3 employees on average at their fifth year of operation—a change in size of 126 percent. In addition to Hawaii, Alaska and Utah were the smaller states that fared particularly well on this component of the Growth Entrepreneurship Index.



Hawaii, Alaska, and Utah were the smaller states that fared particularly well on this component of the Growth Entrepreneurship Index.

Figure 5
2017 Rate of Startup Growth | Twenty-Five Smaller U.S. States by Population
Kauffman Index of Growth Entrepreneurship



For an interactive version of the rankings, please see: www.kauffmanindex.org.



State Trends in Share of Scaleups

The second component of the Growth Entrepreneurship Index, the Share of Scaleups, looks at the percentage of companies ten years old and younger that are scaleups—companies that start small and grow to employ at least fifty people in their first ten years. While the Rate of Startup Growth measures the average employment growth of a whole cohort of firms, the Share of Scaleups focuses only on the firms that reach a certain scale, as measured by employment size.

Researchers such as Dan Isenberg (2012) and practitioners such as Brad Feld (2013) have highlighted the importance of scaleups in addition to startups. While measuring scaleups is difficult and there is no consensus on methodology, work in this area focuses on capturing growth after the startup process and

emphasizes the importance of growth within the broader concept of the entrepreneurial process.

We present this indicator from 1982 to 2014 online at KauffmanIndex.org. As with other growth entrepreneurship measures, the Share of Scaleups varies across states.

Share of Scaleups—Trends in Larger States

Among the twenty-five larger states, the Share of Scaleups ranged from 0.9 percent in Michigan and Florida to 2.2 percent in Louisiana. A Share of Scaleups of 2.2 percent means that approximately twenty-two companies out of every 1,000 firms ten years old and younger started with fewer than fifty employees and reached a scale of more than fifty employees in their first ten years of operations. In addition to Louisiana, Texas and Maryland fared particularly well on this component of the Growth Entrepreneurship Index.

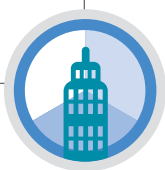
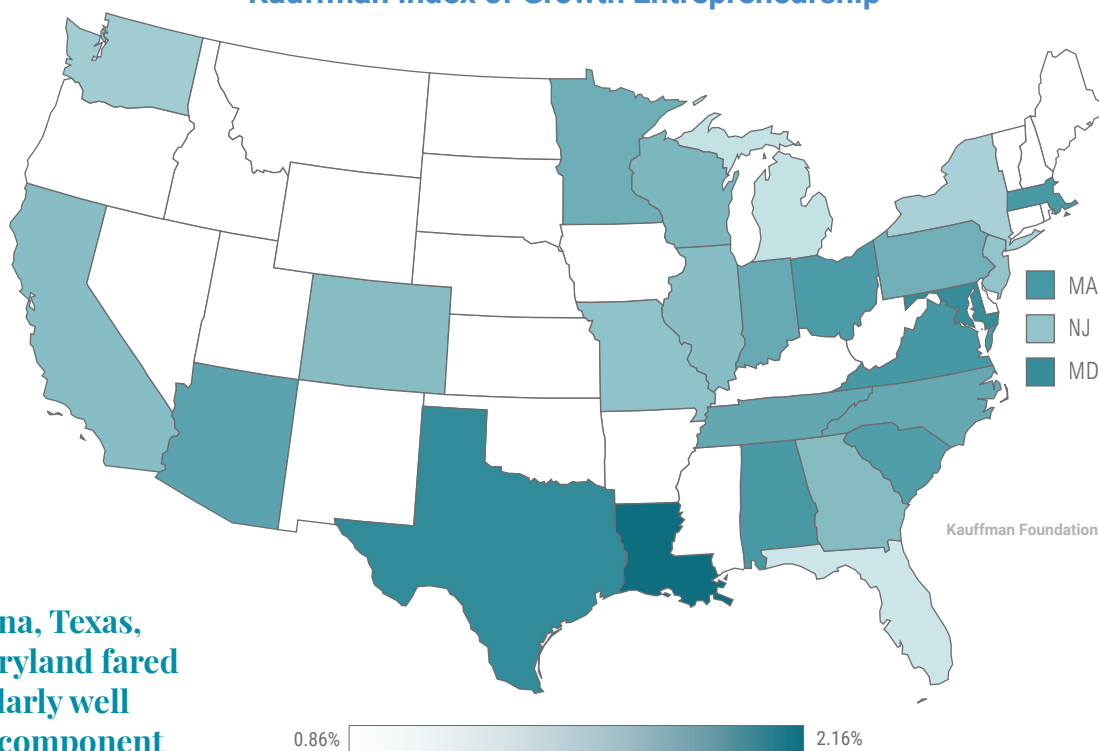


Figure 6

2017 Share of Scaleups | Twenty-Five Larger U.S. States by Population Kauffman Index of Growth Entrepreneurship



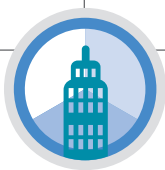
Louisiana, Texas, and Maryland fared particularly well on this component of the Growth Entrepreneurship Index.

For an interactive version of the rankings, please see: www.kauffmanindex.org.

Share of Scaleups—Trends in Smaller States

Scaleups ranged from 0.9 percent in Montana to 1.8 percent in North Dakota, Oklahoma, and Hawaii—the three smaller states that performed especially well in this component of the Growth

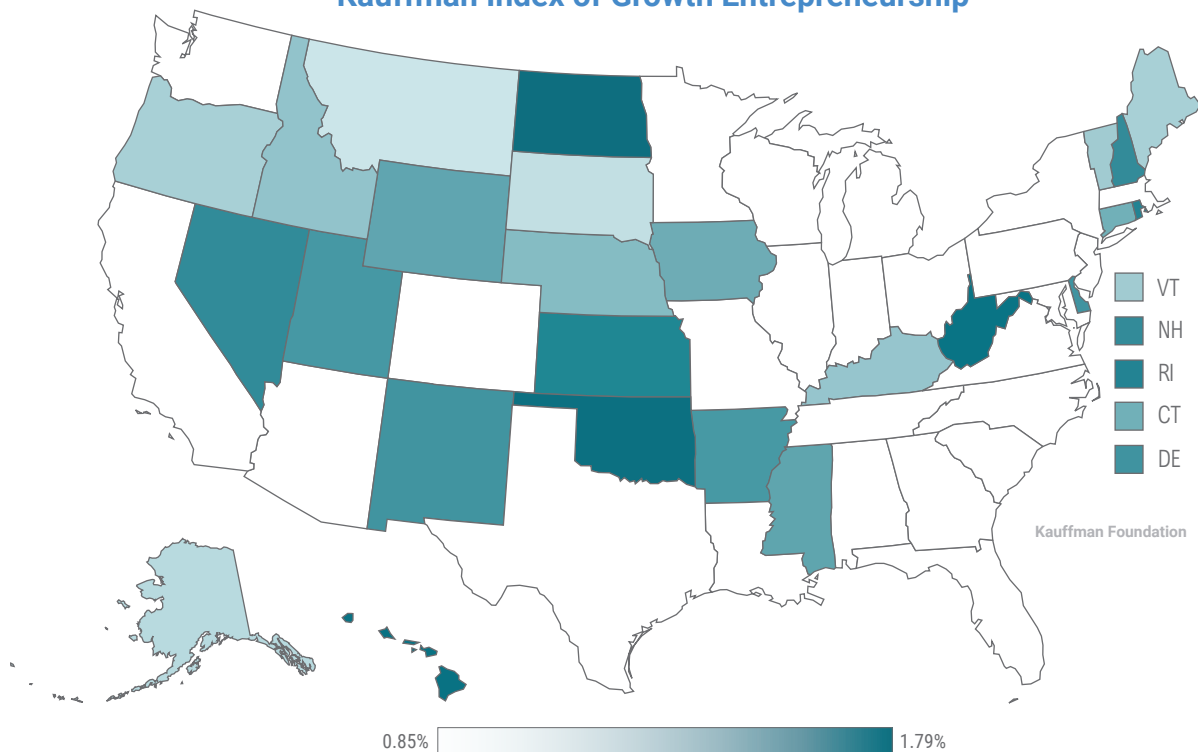
Entrepreneurship Index. A Share of Scaleups of 1.8 percent means that approximately eighteen companies out of every 1,000 firms started with fewer than fifty employees and reached a scale of more than fifty employees in their first ten years of operations.



North Dakota, Oklahoma, and Hawaii were the three smaller states that performed especially well on this component of the Growth Entrepreneurship Index.

Figure 7

2017 Share of Scaleups | Twenty-Five Smaller U.S. States by Population Kauffman Index of Growth Entrepreneurship



For an interactive version of the rankings, please see: www.kauffmanindex.org.



State Trends in High-Growth Company Density

The third and last component of the Growth Entrepreneurship Index, High-Growth Company Density, assesses the prevalence of high-growth private companies in an area, defined as those that achieve at least \$2 million in revenue and at least 20 percent annualized growth over a three-year period. While the Rate of Startup Growth and the Share of Scaleups focus on employment-based growth indicators, High-Growth Company Density is a revenue-based measure. Furthermore, it is distinct from the Share of Scaleups in that it does not include an upper-bound restriction on firm age. While all firms included in this measure are at least three years old, there is a wide range in the ages of these high-growth firms. Data indicate, however, that these firms skew young: more than 30 percent of these high-

growth companies are between five and seven years old, and approximately 60 percent are ten years old or younger.

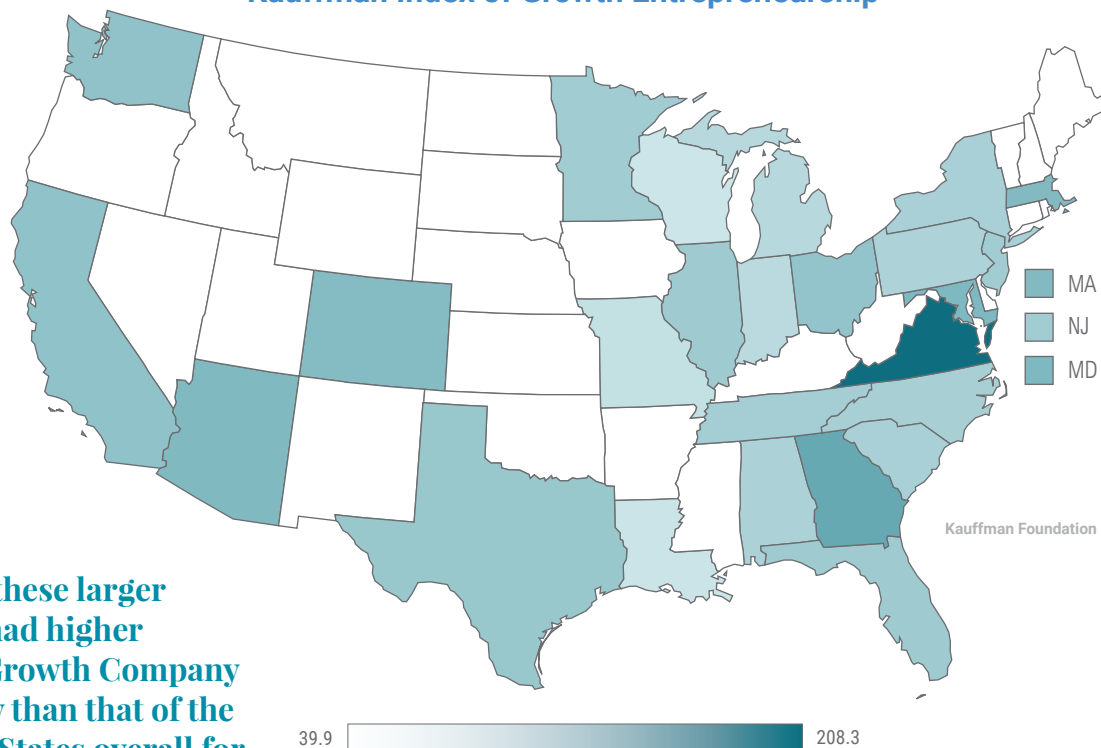
Both researchers and entrepreneurs have suggested density as a key indicator of vibrancy in entrepreneurial ecosystems, and there is high variation in this indicator across both states and metropolitan areas in the United States.

High-Growth Company Density—Trends in Larger States

Among the twenty-five larger states, High-Growth Company Density ranges from 39.9 high-growth companies for every 100,000 employer businesses in Wisconsin to 208.3 high-growth companies per 100,000 employer businesses in Virginia. Ten of these larger states had higher High-Growth Company Density than that of the United States overall for the same year: seventy-nine high-growth companies for every 100,000 employer businesses in the United States.



Figure 8
2017 High-Growth Company Density | Twenty-Five Larger U.S. States by Population
Kauffman Index of Growth Entrepreneurship



Ten of these larger states had higher High-Growth Company Density than that of the United States overall for the same year.

For an interactive version of the rankings, please see: www.kauffmanindex.org.

High-Growth Company Density—Trends in Smaller States

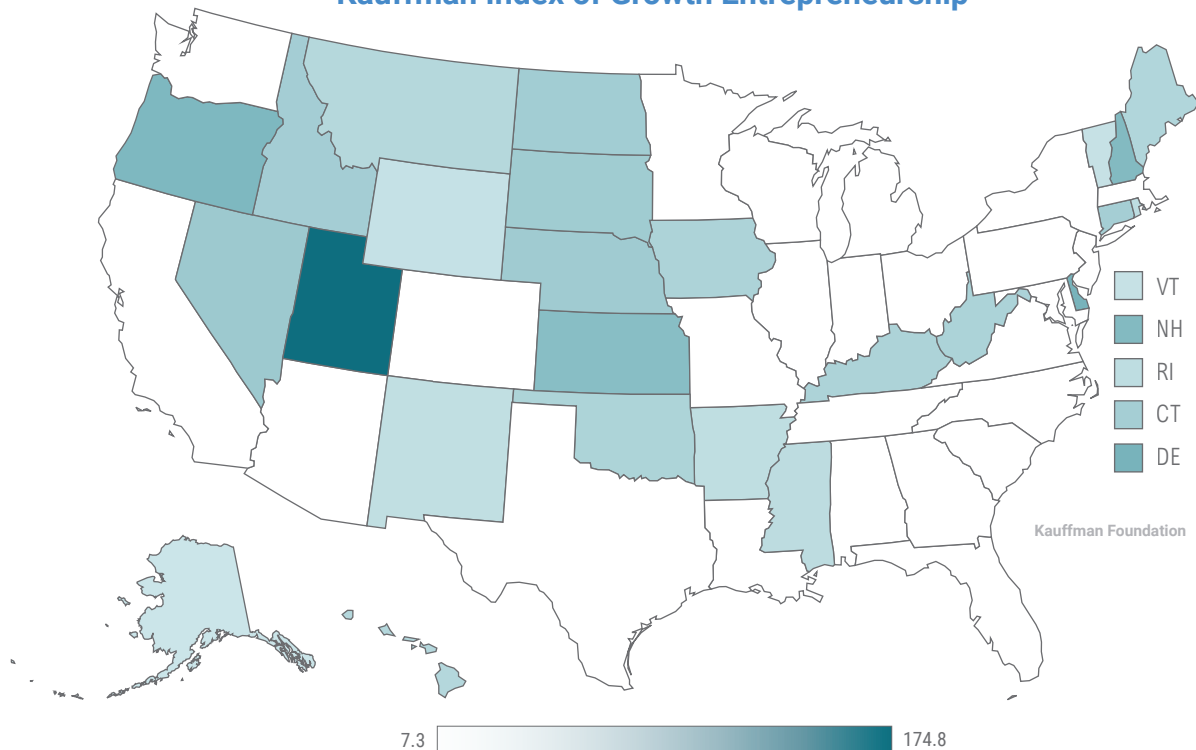
Among the twenty-five smaller states, the High-Growth Company Density varied from 7.3 high-growth companies for every 100,000 employer businesses in Alaska to 174.8

high-growth companies per 100,000 employer businesses in Utah. Only one smaller state—Utah—had a higher High-Growth Company Density than the overall U.S. High-Growth Company Density of seventy-nine high-growth companies for every 100,000 employer businesses in the United States.



Utah had a higher High-Growth Company Density than the overall U.S. High-Growth Company Density of seventy-nine high-growth companies for every 100,000 employer businesses in the United States.

Figure 9
2017 High-Growth Company Density | Twenty-Five Smaller U.S. States by Population
Kauffman Index of Growth Entrepreneurship



For an interactive version of the rankings, please see: www.kauffmanindex.org.



The Geography of Venture Exits in the United States

Venture exits, including initial public offerings (IPOs), acquisitions, and buyouts, are one of the possible outcomes of entrepreneurial growth. Each of these events represents a liquidity milestone for growth companies.

While venture exits are a clear indicator of growth companies, this metric is difficult to integrate into the Growth Entrepreneurship Index comprehensively due to the relatively small number of exits in the United States in any given year. As a result, we present statistics on business exits here as a supplement to the Growth Entrepreneurship Index.

We made these calculations using data from the National Venture Capital Association and the data platform Pitchbook through a partnership with the Kauffman Foundation. As such, the exits represented here are limited to those of venture capital-backed companies.

The tables present the number of venture-backed exits, as well as venture exits density statistics for 2016—calculated as the number of venture-backed exits in a given state or metropolitan area each year per every 100,000 employer businesses in that state or metropolitan area. We offer figures for the states and metropolitan areas that have the highest venture exits density.

The United States overall saw more than 800 venture-backed exits in 2016, including IPOs, acquisitions, and buyouts. The five states with the highest venture exits density were California, Massachusetts, New York, Utah, and Washington. The three metros with the highest venture exits density were San Francisco, New York, and San Jose.

Table 5

Top States by Venture Exits Density in 2016—Kauffman Index of Growth Entrepreneurship

Rank	State	Number of Venture Exits	Venture Exits Density	Size Category
1	California	302	48.8	Large
1	Massachusetts	60	48.8	Large
3	New York	84	21.1	Large
4	Utah	8	15.5	Small
5	Washington	19	15	Large
6	Pennsylvania	28	13.6	Large
7	New Mexico	4	13	Small
8	Connecticut	8	12.6	Small
9	Nevada	5	11.9	Small
9	Colorado	13	11.9	Large

SOURCE: Authors' calculations using National Venture Capital Association and Pitchbook data and the BDS.

Table 6

Top Metros by Venture Exits Density in 2016—Kauffman Index of Growth Entrepreneurship

Rank	Main City	Metropolitan Area	Venture Exits Density
1	San Francisco	San Francisco-Oakland-Fremont, CA	250.8
2	New York	New York-Northern New Jersey-Long Island, NY-NJ-PA	168.3
3	San Jose	San Jose-Sunnyvale-Santa Clara, CA	111.1
4	Boston	Boston-Cambridge-Quincy, MA-NH	106.7
5	Los Angeles	Los Angeles-Long Beach-Santa Ana, CA	64.9
6	San Diego	San Diego-Carlsbad-San Marcos, CA	34.1
7	Philadelphia	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	31.9
8	Chicago	Chicago-Joliet-Naperville, IL-IN-WI	30.8
9	Seattle	Seattle-Tacoma-Bellevue, WA	29.7
10	Austin	Austin-Round Rock-San Marcos, TX	27.5
11	Washington	Washington-Arlington-Alexandria, DC-VA-MD-WV	23.1
12	Atlanta	Atlanta-Sandy Springs-Marietta, GA	19.8
13	Denver	Denver-Aurora-Broomfield, CO	17.6
13	Minneapolis	Minneapolis-St. Paul-Bloomington, MN-WI	17.6
15	Dallas	Dallas-Fort Worth-Arlington, TX	15.4

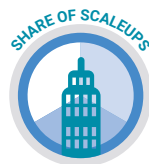
SOURCE: Authors' calculations using National Venture Capital Association and Pitchbook data and the BDS.

2017 THE KAUFFMAN INDEX

growth entrepreneurship



Rate of Startup Growth



Share of Scaleups



High-Growth Companies

Methodology and Framework

The Growth Entrepreneurship Index focuses exclusively on outputs associated with growth entrepreneurship—such as jobs and revenue—because the data currently available to measure inputs—such as venture capital and angel investment—remain somewhat fragmented and are not readily available across all geographies included in the Kauffman Index. Moreover, measurement of inputs may not capture the entire universe of high-growth firms because there are high-growth companies that do not have access to the inputs commonly associated with high-growth entrepreneurship or that are in non-tech industries (Motoyama et al. 2013; Ritter 2016; Motoyama and Danley 2012; Moreira 2015).

Many promising research efforts on entrepreneurial inputs are underway, including the Seed Accelerator Ranking Project, the Halo Report, Pitchbook, CB Insights, Crunchbase, Startup Genome, and the MIT Entrepreneurial Quality project. It is possible that future Kauffman Index reports may incorporate measures of entrepreneurship inputs.

Growth Entrepreneurship Index Components: Definitions and Data Sources

The Growth Entrepreneurship Index includes three components: Rate of Startup Growth, Share of Scaleups, and High-Growth Company Density. We provide detailed definitions,

as well as discussions of the data sources and calculations for each of these components below.



1. Rate of Startup Growth

Definition. The Rate of Startup Growth component of the Growth Entrepreneurship Index is a yearly estimate that measures the average change in employment for a cohort of startups between the year of founding and the fifth year of operation. Startups are defined as all U.S. employer firms that are younger than one year old in a given year, regardless of industry.

Data sources. This measure uses U.S. Census Bureau data from the Business Dynamics Statistics (BDS). The BDS is a firm-level dataset constructed using administrative payroll tax records from the Internal Revenue Service (IRS). It covers all employer businesses in the United States (approximately 5 million businesses). The BDS data include numbers of firms tabulated by employment size, by firm age, and by geography (national, state, and metropolitan area). The BDS metro data geographic coverage is based on the Office of Management and Budget (OMB) definitions for metropolitan areas from December 2009.

Calculation. We calculate the Rate of Startup Growth by determining the percentage change between the average employment of all employer firms that were less than one year old in a given year and the average employment of the surviving firms in that cohort five years later.

Figure 1B below illustrates this calculation by cohort. The average U.S. startup that was founded in 2008 (and was, therefore, five years old in 2013) had 5.8 employees at founding, and the average U.S. startup that was founded in 2008 and survived until 2013 had 9.2 employees after five years of operation. The Rate of Startup Growth for 2013, then, was 58.5 percent—the percent change between 5.8 and 9.2.

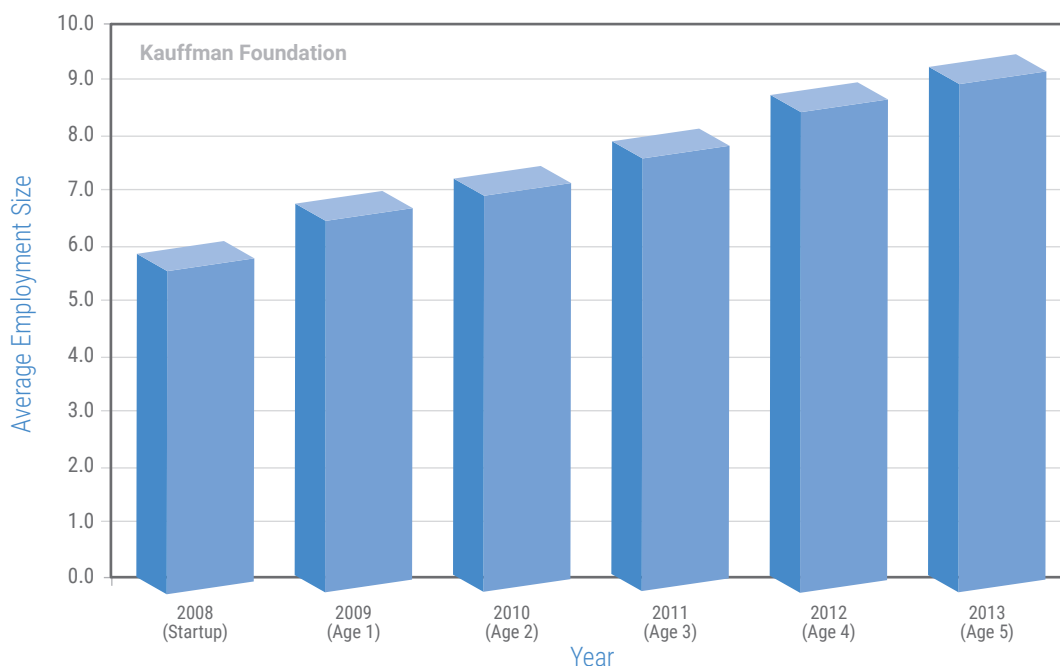
Nowcast estimates. Although the legacy version of the BDS data is comprehensive, including extensive firm data at the state and metropolitan-area levels and detailed firm size by firm age files, these data are only available from 1977–2014. There is, however, a second version of the BDS that is less comprehensive, but more recently released. These data, released September 20, 2017, are for 2015 and do not include any metropolitan-level data or firm size by firm age files. We use both the new and the legacy versions of the BDS to calculate the Rate of Startup Growth at the national level from 1982 (when the firms that started in 1977 turned five) to 2015. For 2016, we estimate the Rate of Startup Growth by taking a two-year moving average of the mean firm size by age five for 2014 and 2015, and we use that number to calculate the estimated Rate of Startup Growth for 2016. Please note that these nowcast estimates were only created at the national level; the Rate of Startup Growth figures for states and

metros can only be calculated using the legacy version of the BDS and, therefore, only go up to the year 2014.

Limitations and bias. Although it would be ideal to examine average growth in employment within each firm, data limitations only make it possible to look across the entire cohort. As a result, the Rate of Startup Growth includes all new firms in the calculation of average size during their year of founding, but it only includes those firms that survive to five years in the calculation of average size during the fifth year of operation. Thus, this indicator only represents the change in employment across the whole cohort of new firms, which results in survivor bias. Employment and growth, presented here as an average, are typically more highly skewed among individual firms.

Because the BDS is based on administrative data covering the universe of employer businesses, sampling concerns like standard errors and confidence intervals are not applicable. Nonetheless, non-sampling errors still could occur. These could be caused, for example, by data entry issues with the IRS payroll tax records or by businesses submitting incorrect employment data to the IRS. These errors, however, are likely to be randomly distributed and are unlikely to cause significant biases in the data. Please see Jarmin and Miranda (2002) for a complete

Figure 1B
Average Size of Surviving Business by Number of Employees
for Startups Founded in 2008 and Turning Five in 2013



SOURCE: Authors' calculations using the BDS.

discussion of potential complications in the dataset caused by changes in the administrative data on which the BDS is based.

Relationship to other research. The Rate of Startup Growth metric is based on previous work by the Kauffman Foundation that examined average company size by cohort over time in order to gauge U.S. job creation and the growth trajectories of new firms (Reedy and Litan 2011). Examining cohorts of new businesses is a common practice among researchers studying business demography. Just as cohorts of people born around the same time exhibit similar traits (think baby boomers or millennials), businesses are imprinted by the economic environment into which they enter (Moreira 2015). And just as we track the weight and height of children as they grow, it is helpful to take standard measures for a cohort of businesses as it ages in order to track the broad health of startups.

The downward trend in the Rate of Startup Growth (see Figure 1A in the national report) is consistent with other research based on Census Bureau data that has found falling levels of economic dynamism in the United States (Decker et al. 2015).



2. Share of Scaleups

Definition. The Share of Scaleups, the second component of the Growth Entrepreneurship Index, is a yearly proxy measure that calculates the percentage of all firms ten years old and younger that are scaleups—employer businesses over a year old and less than ten years old that started with fewer than fifty employees and grew to employ fifty or more people in their first ten years of operation.

Data sources. The Share of Scaleups is, like the Rate of Startup Growth, based on the BDS data described in the section above.

Calculation. We calculate this proxy number of scaleups by looking at all firms at least one year old and younger than ten years old with fifty employees or more and then subtracting all new firms founded in the past ten years that started out with fifty or more employees. We then calculate the Share of Scaleups as this number of scaleups divided by the total number of firms ten years old and younger, including those that are younger than one year old. The requirement that all scaleups are at least one year old ensures that we are focused on scaleups rather than startups. Our size cutoffs for medium and large firms come from the European Commission's definition (European Union 2003).

Nowcast estimates. The nowcasts created for the Share of Scaleups in the years 2015 and 2016 use the legacy version of the BDS data described above in the discussion of the nowcasts for Rate of Startup Growth, as well as establishment data from the Business Employment Dynamics (BED) data. We create a ratio of BDS firm data to BED establishment data to estimate the firms younger than one year old. We then calculate the percentage of firms that survive into the next year by age group. We also calculate the percentage of firms with fifty or more

employees in each age group. For example, in 2015, we first use the ratio of BDS firms to BED establishments in 2014 to estimate age zero firms in 2015. We then use the percentage of firms that survived, by age group, from 2013 to 2014 to calculate the number of firms, by age group, that would survive from 2014 into 2015. Then, using the percentage of firms that have fifty or more employees in 2014, we can calculate the percentage of firms with fifty or more employees in 2015. A similar method, using 2014 ratios and 2015 data, is used to calculate 2016 nowcast data. The nowcast data then is used to estimate the Share of Scaleups for the United States in 2015 and 2016; no nowcasts were created for states or metros.

Limitations and bias. Potential errors and bias in the BDS dataset are described above.



3. High-Growth Company Density

Definition. High-Growth Company Density, the third and final component of the Growth Entrepreneurship Index, considers private firms more broadly—not just those companies that are young or

small. It represents the number of private businesses that have at least \$2 million in annual revenue and three years of 20 percent annualized revenue growth, normalized by the total population of employer firms.

Data sources. This component is based on two datasets; we use the BDS data described above for the total population of employer firms in the United States, and we use the Inc. 500|5000 annual list of high-growth companies to track high-growth firms (as measured by revenue).

Inc. magazine has compiled the Inc. 500 list every year since 1982, and *Inc.* added the Inc. 5000 list in 2007. To ensure wide geographic coverage of companies from year to year, we limit our analysis to the years after the implementation of the Inc. 5000 list in 2007. These firms are of all sizes and ages, and they come from a wide range of industries, from retailers to high tech. At the higher end of the distribution, some of these Inc. high-growth companies have multibillion-dollar revenues and explosive growth rates. In addition, some firms included on these lists have become Fortune 500 companies and experienced initial public offerings and/or acquisitions. Examples of companies on the Inc. 500|5000 list have included stereotypical high-growth tech firms, such as Facebook, Microsoft, Oracle, GoPro, and Zappos, as well as firms in industries that are less top-of-mind, such as Domino's Pizza, Planet Fitness, and Jamba Juice (Motoyama and Danley 2012). The data come from *Inc.* magazine and are presented here in aggregate format as a derivative report and product.

Calculation. To calculate the High-Growth Company Density, we start with the 5000-company list of high-growing private companies curated by *Inc.* magazine based on the applications it received through its selection process. We cut all firms that did not have at least \$2 million in annual revenue and at least

20 percent annualized growth over a three-year period—which compounds to 72.8 percent after the three years. Applying this consistent growth threshold to the list allows us to track trends in the population of Inc. 500|5000 companies over time. This growth cutoff is based on the recommended levels put forward by the Organisation for Economic Co-operation and Development (OECD) Entrepreneurship Indicators project, and it typically excludes between 20 percent and 40 percent of the 5,000 firms on the Inc. list in a given year. After imposing this growth threshold, we look at fluctuations in the number of U.S. high-growth firms over time and by geography. We then normalize the number of companies by the population of total employer firms in a given geographic area, using BDS data. While the Inc. list goes up to 2016, the latest complete BDS data available are for 2014. As such, we normalize Inc. numbers from 2015 and 2016 against the total firm population in the BDS for 2014.

The High-Growth Company Density has no upper-bound restriction on firm age, but it requires firms to be at least three years old. As a result, the high-growth firms included in the data cover a wide range of ages, although the firms skew young. About 30 percent of high-growth companies are between five and seven years old, and approximately 60 percent are ten years old or younger.

Limitations and bias. There is some bias in the Inc. 500|5000 data, as businesses must seek out this designation. In addition, there may be other biases introduced in the data if there were undocumented changes in the selection criteria Inc. used over time. While Inc. firms arguably are not fully representative of all U.S. high-growth companies, the dataset is one of the few that allows us to track trends in revenue-focused high-growth companies over time and across the country at the national, state, and metro levels.

Relationship to other research. Despite their limitations, the Inc. 500|5000 lists have been utilized in entrepreneurship research for decades because of their strengths relative to alternative data sources (Bhide 2000). The High-Growth Company Density measure is based on previous Kauffman Foundation research that examines the geography of Inc. 500 companies over time (Motoyama and Danley 2012). It also is based on the entrepreneurship fluidity measure suggested by our colleagues Stangler and Bell-Masterson (2015).

Matching metro data. Matching BDS national and state numbers to Inc. data is straightforward because they define these geographic areas identically. Metropolitan areas, however, pose a challenge because definitions of metropolitan area may vary across datasets. To standardize these data, we used the OMB definitions for metropolitan areas from December 2009—the same definition used for the BDS dataset—in our calculations of High-Growth Company Density. Most of the Inc. 500|5000 data had state, zip, and street-level address information for the companies, and we used that data to match high-growth companies to metros in a multi-step process described below.

To calculate the number of high-growth companies using the Inc. 500|5000 data, we aggregated population data from the zip and street level up to the metropolitan level.

First, we created a crosswalk file connecting zip codes to counties, which makes it possible to then match zip codes to metros according to the OMB 2009 definitions. To create the zip-to-county crosswalk, we started with the Department of Housing (HUD) zip-to-county file. When a zip code crossed county boundaries, we matched it to the county with the highest ratio of addresses for that zip code. When there was a tie, we used the ratio of business addresses, residential addresses, and other addresses, in that order, to break the tie. When there was still a tie (only five zip codes in the country), we picked one county for a match. As the HUD crosswalk is extensive but not comprehensive, we complemented it by merging it with the University of Missouri zip-to-county data geocoder for zips not included in the HUD file. Similarly, when a zip code crossed county boundaries, we matched it to the county with the highest population for that zip code in 2010.

Second, we matched Inc. 500|5000 entries that contained zip code locations to the zip-to-county combined crosswalk file we created. Most of the companies in the data (approximately 94.4 percent of the 45,000 companies in the dataset included zip codes for companies) had zip location information that matched to a county.

Third, for the approximately 2,500 unmatched companies, we did two rounds of geocoding using the HERE API to identify zip codes for these firms. The first round used the structured street-level address and state for matching. Almost all 2,500 businesses were matched in that way, with only forty-nine businesses remaining unmatched. The second round of geocoding with the HERE API did a free text search on the location data available for these companies, and identified the locations of thirty-two of the forty-nine. Fourth, for the remaining seventeen companies, we manually searched for their zip codes on their websites and through internet searches.

For the Inc. 500|5000 companies that did not have zip code information, we used the metropolitan-area data provided by Inc. magazine to match companies to metropolitan and micropolitan areas. When that kind of location data was missing, we manually searched for the companies' locations on the internet.

Calculating the Growth Entrepreneurship Index

The Growth Entrepreneurship Index is an equally weighted index of the three normalized measures of business growth in the United States discussed above: Rate of Startup Growth, Share of Scaleups, and High-Growth Company Density. While two of these components use BDS data, which arguably are the most comprehensive time series on firms available for the U.S. economy, the third component offers a more balanced perspective on growth entrepreneurship by using a secondary source of data—Inc. 500|5000 lists.

The components we use for the Growth Entrepreneurship Index are all annual numbers across national, state, and metro-level indicators (e.g., there were no moving averages calculations). To create a comparable scale for the three measures in the Growth Entrepreneurship Index, each of these measures is normalized by subtracting the mean and dividing by the standard deviation for that measure (i.e., creating a z-score for each variable). We use national annual numbers from 2007 to 2016 to calculate the mean and standard deviation for Rate of Startup Growth, Share of Scaleups, and High-Growth Company Density. The same normalization method is used for all three geographic levels—national, state, and metropolitan area—to ensure comparability and consistency over time.

The methodology for calculating the Growth Entrepreneurship Index was updated this year due to the new nowcast estimates we created for the Rate of Startup Growth and Share of Scaleups for 2015 and 2016 in this year's study. In the 2016 Growth Entrepreneurship Index report, the Rate of Startup Growth and Share of Scaleups were based on data that only went to 2013, while the High-Growth Company Density component was based on data that went up to 2015. As we were working with data from varied time periods for that study, it made the most sense to create an aggregate measure and assign the most recent data point to 2016, the year of its publication. Since we were able to create nowcasts at the national level for Rate of Startup Growth and Share of Scaleups this year, we have 2016 data for each component (with the slight exception of the denominator for the High-Growth Company Density)—and, thus, it is most logical to make the aggregate figure that is based on 2016 data the 2016 data point.

The graphs of the Rate of Startup Growth and Share of Scaleups over time, then, are identical in this report to those in the previous report, except that they include three additional years of data (Census has released 2014 data, and we have estimates for 2015 and 2016).

The graph for the overall Growth Entrepreneurship Index figure, however, changes slightly because the composite measure combines data for all components based on underlying data for the same year (whereas these components were based on data for different years in last year's report). Last year, for example, the composite measure for 2016 included Rate of Startup Growth and Share of Scaleups components that were based on 2013 BDS data and a High-Growth Company Density component that was based on 2015 Inc. data. In this report, the composite measure for 2016 is based on 2016 data for each component, using nowcasts for two components. The trends in the Growth Entrepreneurship Index over time overall, however, are largely similar in this year's report to those in last year's report.

We recognize that growth entrepreneurship can be defined and measured in multiple ways. See, for example, Siegel et al. (1993); Birch and Medoff (1994); Kirchoff (1994); Stangler (2010); Kedrosky (2013); and Guzman and Stern (2016). We also

understand there are other approaches to the concept, and we welcome conversations on the topic as we continue to explore indicators of growth entrepreneurship.

Advantages Over Other Possible Measures of Entrepreneurship

The Growth Entrepreneurship Index has several advantages over other possible measures of growth entrepreneurship activity based on household or business-level data. We chose to use two distinct primary datasets: one based on all employer businesses (BDS) and the other based on the fastest-growing private companies in the United States (Inc. 500|5000 lists). These datasets allow us to study private growth companies in their earliest years, when only the government is likely to be aware of them, as well as at later stages of their development. These data are also optimal for our focus on outputs of growth entrepreneurship instead of inputs—thus capturing realized growth. These datasets have complementary strengths that make this Index a robust measure of growth entrepreneurship.

There are other strong, available measures of growth and growth potential for startups that were not referenced here because of certain tradeoffs—such as lack of yearly data or lack of availability for all fifty states or for metropolitan areas. Guzman and Stern (2016), for instance, while very helpful, has indicators that are not yet available for the geographic coverage we sought (i.e., all states and the country's forty largest metros).

Rate of Startup Growth and Share of Scaleups

The first two components of the Growth Index—Rate of Startup Growth and Share of Scaleups—both use BDS data, which present several benchmarking advantages. First, the BDS is based on administrative data covering the overall employer business population. As such, it has no potential sampling issues. Second, it has detailed coverage across all levels of geography, including metropolitan areas. Third, it provides firm-level data, rather than just establishment-level data. And fourth, it provides detailed employment level and age breakdown of firms, allowing us to clearly identify firms by age and size.

The BED dataset from the Bureau of Labor Statistics is similar to the BDS data. We chose not to use it for this report because of two distinct advantages we see in the BDS over the BED. First, the BDS tracks firm-level data, as opposed to the establishment-level data tracked by the BED. Second, the BED does not have metropolitan-level data available, while BDS data are available at our three geographic levels. Because the BED tracks establishments rather than firms, the BDS numbers are different than the BED numbers. Nonetheless, the trends in the two datasets move largely in tandem and usually point in the same direction.

High-Growth Company Density

The High-Growth Company Density measure is based off one of the oldest, continuous rankings of growth companies in the United States: the Inc. 500|5000 lists.

While the U.S. government has produced a time series documenting growth companies at the national level through the Organisation for Economic Co-operation and Development's Entrepreneurship Indicator Project, this time series is relatively short, covering only a few years, and is not currently available at the subnational level. In our search for an alternative data source, we also considered the National Establishment Time-Series dataset or other Dun & Bradstreet-based alternatives. These datasets, however, are not as timely as the Inc. lists and are not publicly available.

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Notes



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