How Have Young Firms (and their Founders) Fared During and After the Great Recession?

Rebecca Zarutskie, Federal Reserve Board

Tiantian Yang, University of North Carolina at Chapel Hill

Abstract

We will examine the impact of the financial crisis and the Great Recession on the financial and real outcomes of young firms using the more detailed NORC enclave version of the Kauffman Firm Survey (KFS). The KFS tracks a sample of 4,928 firms founded in 2004 to 2011 (as of present). We will first document the basic patterns in the data surrounding how these young firms evolved in the years leading up to, during, and following the recession years 2008 and 2009. In particular, we will examine how total amount of financing and mix of financing (e.g., bank debt, trade credit, owner equity, outside equity, etc.) evolved. We will also examine how the employment, in terms of full-time and part-time employees and wages, and the revenues, profits, and productivity of these firms evolved. We will also examine firm failure hazards over the same time period. In presenting these facts, we will condition on key firm, owner, and geographical characteristics, such as industry, regional economic and industrial characteristics, whether the firm characterizes its business model as innovative or holds patents, as well as the demographics and initial ownership stake percentages and values of the founders. Doing so will enable us to see which types of firms and owners were more or less affected and in what ways during the recession.

After documenting these basic patterns, we will further investigate to what extent financial shocks stemming from the crisis impacted the real outcomes of the firms in the KFS. To do this, we must try to separate between demand and supply effects on the real outcomes of the KFS firms. We will employ two strategies. First, we will exploit new questions added to the KFS starting in 2008 which ask about whether the firm applied for financing but was turned down and why. These variables can be used as a measure of financial constraints and as instruments for changes in financing in firms that are arguably independent of the demand for the firms' product. Second, we have merged detailed county-level data on economic indicators, such as unemployment rates and disposable income, and banking market measures. We will use the economic indicators as controls for local demand shocks and will use the banking market variables to distinguish regions in which the banks were more vulnerable to the crisis with the assumption that firms, especially those financed with bank debt, in areas where banks were more vulnerable to the crisis would have a larger shock to their financial health. We will use this analysis to gauge the impact of the financial crisis on firms' real outcomes and their owners' wealth via their equity stakes in the firms.