

Business dynamics and productivity

Key facts

- Labour productivity growth appears to be higher in countries with higher start-up rates and churn rates, pointing to a possible positive impact of business dynamism (i.e. the entry and exit of firms) on productivity growth.
- However, deviating patterns are observed in several countries. In Italy, for instance, high start-up rates co-occur with high productivity growth in the manufacturing sector and flat-lining productivity growth in services; in the United Kingdom, a high churn rate in services is associated with a low level of productivity growth.

Relevance

New, typically small firms are often found to spur aggregate productivity growth as they enter with new technologies

Definitions

The *employer enterprise churn rate* is computed as the sum of the employer enterprise birth rate and the employer enterprise death rate, as defined in the *Eurostat-OECD Manual on Business Demography Statistics*.

The *start-up rate* is defined as the share of 0-2 year-old employer firms in the total enterprise population.

The services sector covers: wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage; accommodation and food services; information and communication services; real estate activities; professional and support activities.

Labour productivity growth is measured as the growth in real gross value added per hour worked as sourced from *OECD Productivity Statistics* (database).

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

and stimulate productivity-enhancing changes in incumbents. The reallocation of resources across enterprises, driven by firm dynamics, is also expected to increase aggregate productivity via a process of “creative destruction”, whereby innovative firms enter the market and expand while displacing lower productivity firms. Several other factors also affect the relationship between productivity and business dynamics, however, including labour skills or the distribution of start-ups by activity.

Comparability

Some care is needed in interpretation. Large countries are, other things equal, likely to exhibit lower birth and death rates than smaller countries, as firms are able to expand within the national economic territory via the creation of new establishments. For smaller countries, similar expansions will be recorded as a birth if the parent enterprise in one country expands through the creation of an affiliate enterprise in a neighbouring country.

Sources

OECD *Structural and Demographic Business Statistics* (SDBS) (database), <http://dx.doi.org/10.1787/sdbs-data-en>.

OECD *Productivity Statistics* (database), <http://dx.doi.org/10.1787/pdtvy-data-en>.

Further reading

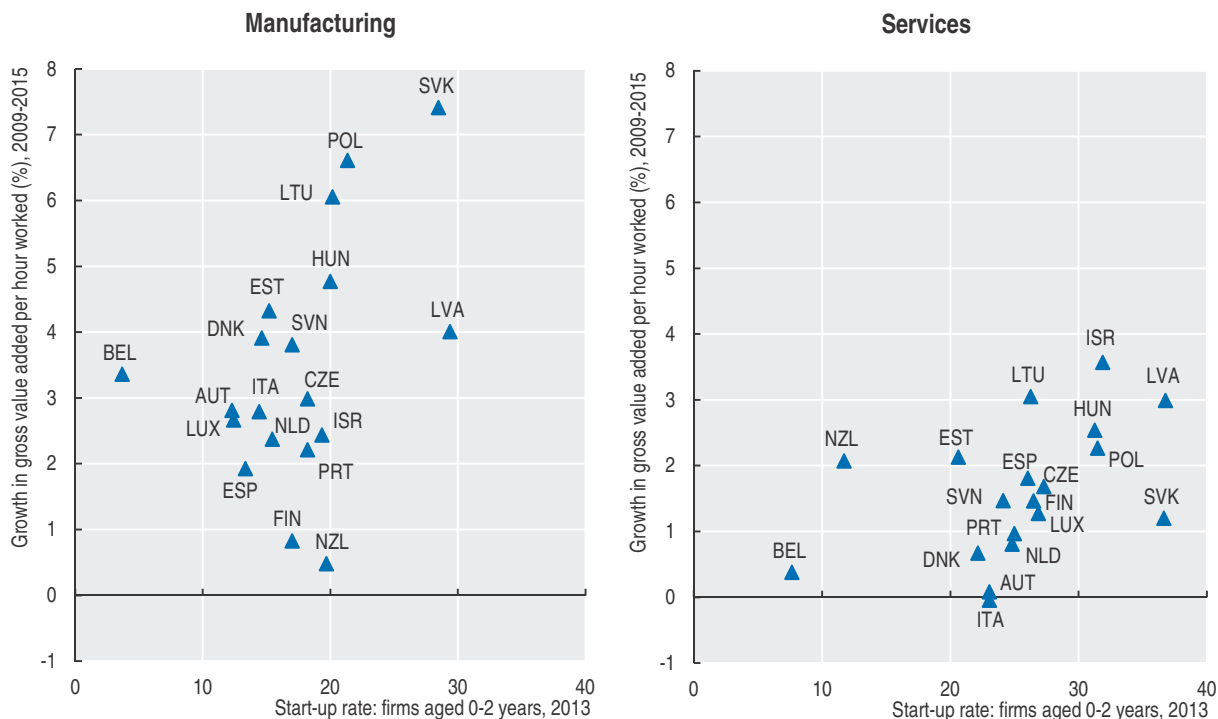
OECD (2016), *OECD Compendium of Productivity Indicators 2016*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/pdtvy-2016-en>.

OECD (2015), *The Future of Productivity*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264248533-en>.

OECD (2001), *Measuring Productivity – OECD Manual: Measurement of Aggregate and Industry-level Productivity Growth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264194519-en>.

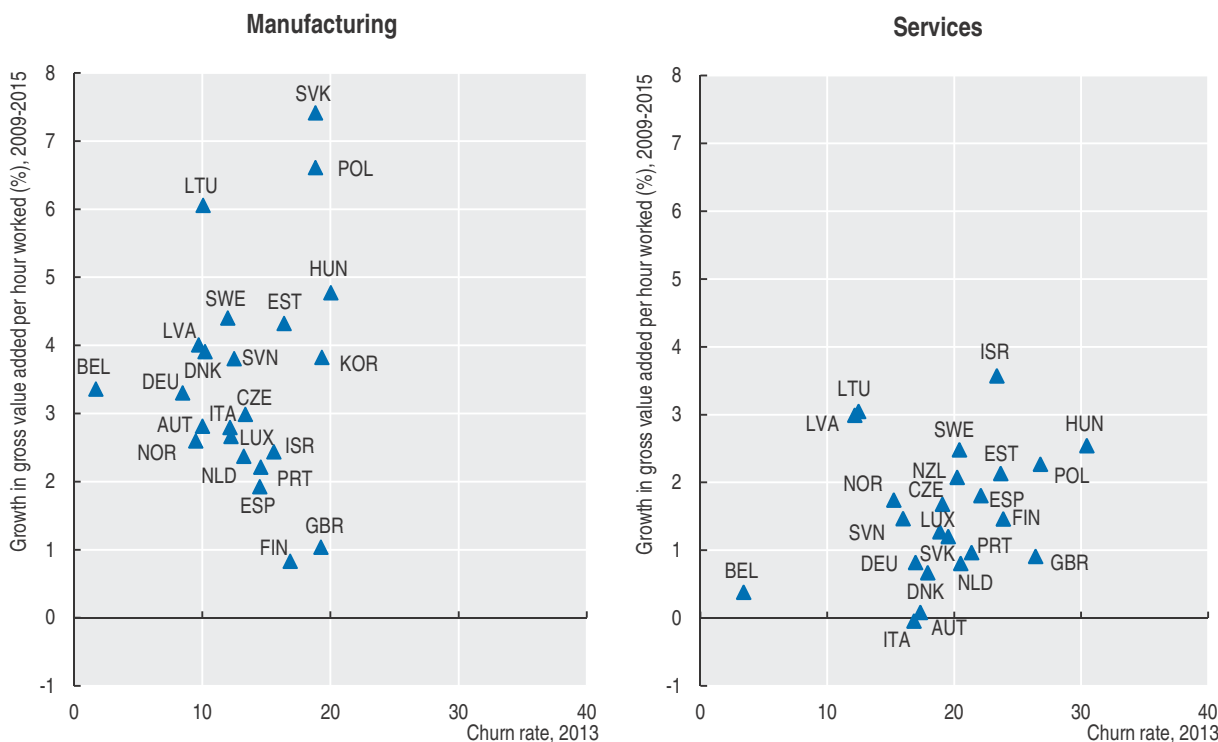
OECD/Eurostat (2008), *Eurostat-OECD Manual on Business Demography Statistics*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264041882-en>.

Figure 3.7. **Start-up rates and labour productivity growth**
 Percentage of total firm population (x-axis); average annual growth (y-axis)

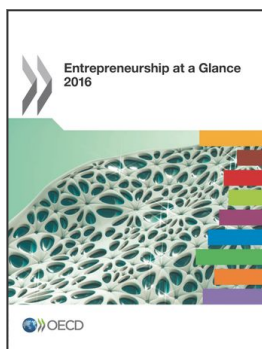


StatLink <http://dx.doi.org/10.1787/888933403969>

Figure 3.8. **Churn rates and labour productivity growth**
 Churn rates (x-axis); average annual growth (y-axis)



StatLink <http://dx.doi.org/10.1787/888933403979>



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