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Kauffman Foundation announces four-year extension of Kauffman Firm Survey that follows the evolution of young businesses.

(KANSAS CITY, Mo.) Nov. 19, 2008 — The Ewing Marion Kauffman Foundation announced today that it will extend the Kauffman Firm Survey (KFS)—the largest longitudinal survey of new businesses in the world—to collect four more years of data. The Kauffman Foundation created the KFS to fill a void in valuable data collection on young businesses in the United States and catalyze new understandings of how various factors influence entrepreneurial outcomes. The KFS is currently in its third follow-up collection period, and the additional funding will extend it to seven follow-up periods.

"Adding four more years for this group will create more valuable data for researchers looking to understand entrepreneurial outcomes," said Alicia Robb, Kauffman Foundation senior research fellow and the KFS principal investigator. "One of the values of panel data is the ability to study the effects of changing economic conditions. Our data begins before the credit/housing crisis arose, during the middle of the 2001-2007 expansion. A longer panel will allow us to examine the effect of this economic downturn on business financing and firm outcomes."

The KFS started with a cohort of nearly 5,000 firms that began operations in 2004. This cohort is tracked annually and asked an extensive set of detailed questions that cover a range of topics, including the founders' backgrounds, the sources and amounts of financing, firm strategies and innovations, and outcomes such as sales, profits and survival.

"The Kauffman Firm Survey is a pivotal part of the Foundation's overall commitment to improving the quality of data available for research and policy work in entrepreneurship," said E.J. Reedy, manager, Research & Policy at the Kauffman Foundation. "The early years of a business can be chaotic. Now we will have eight full years of data to tease out information on what contributes to different entrepreneurial outcomes."

The KFS is the largest publicly available research data set following a nationally representative sample of firms from their start over time to learn how they mature and what factors contribute to different outcomes. Robb works with Mathematica Policy Research, Inc., to collect data from the businesses in the survey. Mathematica has completed the baseline and two years of follow-up data collection, and has begun collecting an additional year of data covering the activities of the businesses for calendar year 2007.

Researchers are just beginning to use the KFS to better understand entrepreneurship, but the data already have revealed important new insights. In the Capital Structure Decisions of New Firms, a research paper reporting on new firm debt financing using KFS data, Robb writes that, contrary to widely held beliefs that startup companies rely heavily on funding from family and friends, external debt financing such as bank loans were found to be the more common sources of funding during many companies' first year of operation. According to the study, nearly 75 percent of most firms' startup capital is comprised of equal parts owner equity and bank loans and/or credit card debt, underscoring the importance of liquid credit markets to the formation and success of new firms.

"If nascent firms hold the key to growth in Western economies, then surely economic growth hinges critically on the smooth functioning of credit markets that enable young firms to be formed, to grow and to succeed," Robb said. "There's a critical role for policy-makers right now to ensure that the credit markets start functioning better so that we minimize the negative effect the credit crunch is having on startup businesses."
Interestingly, the Capital Structure paper also found that high-tech firms, more than any other type of company, are more likely to get outside equity investments in their first year of operations. According to the data, high-tech firms received an average of $31,216 in this type of financing, compared with firms overall, which received, on average, only $7,000.

Other key findings in the Capital Structure paper include:

• Insider debt (from friends, family and spouses) and outsider equity were much less important sources of startup capital than were outside debt (financing through credit cards, credit lines, bank loans, etc.).
• Owner debt and insider equity were the least important startup capital sources.
• Firms with high credit scores (low-risk companies) started businesses with much higher levels of startup capital than firms with low credit scores. The average startup capital amounts were $136,000 and $50,000 respectively. These compare with about $78,000 for firms overall.
• Low-risk high-tech firms with high Dun & Bradstreet Credit Scores started with nearly $275,000 in financial capital. More than $100,000 of this financing was from outside equity investors such as venture capitalists and other informal investors.
• Outside equity financing was the most important source of startup capital for high-tech firms with high credit scores.

A follow-up to the KFS study, which will examine the first four years of these nascent firms, will be available in spring 2009.

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