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Which Firms Create More *and* Better Jobs?

BY ARTI GROVER

Identifying which firms hire, where, and why is essential for delivering opportunity to tomorrow's workforce in developing economies. While predicting which firms will create the most jobs and better jobs is challenging, research provides valuable insights on the attributes of firms with the greatest employment potential.

Five themes consistently surface from the evidence:

- A small number of firms accounts for a disproportionate share of new jobs.
- The most dynamic employers tend to be relatively young, and their chances of success are generally unrelated to initial size.
- Businesses tend to flourish in well-connected locations.
- They accelerate when plugged into value chains, multinationals, or sophisticated suppliers.
- Stronger management skills and technology adoption underpin their success.

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These facts together point to practical, actionable ways of channeling private capital into large-scale employment, underscoring a potentially strategic role for policies to support firms.

Across a range of sectors, a small share of businesses creates up to two-thirds of all new jobs

Referred to as high-growth firms and representing fewer than one-in-five formal businesses, these businesses are central to job creation, generating up to 60-to-65 percent of new jobs in emerging economies.

These high-growth firms can be found in all sectors, ranging from processed foods manufacturing in Côte d'Ivoire and Indonesia to the furniture makers of Ethiopia, textile mills in Brazil, and computer and electronics firms in Mexico, and business and professional services in Hungary. Their growth spurts, however, are fickle. In most cases, barely one-in-10 companies that vault into the high-growth bracket manage to repeat that feat in the next three-year period.

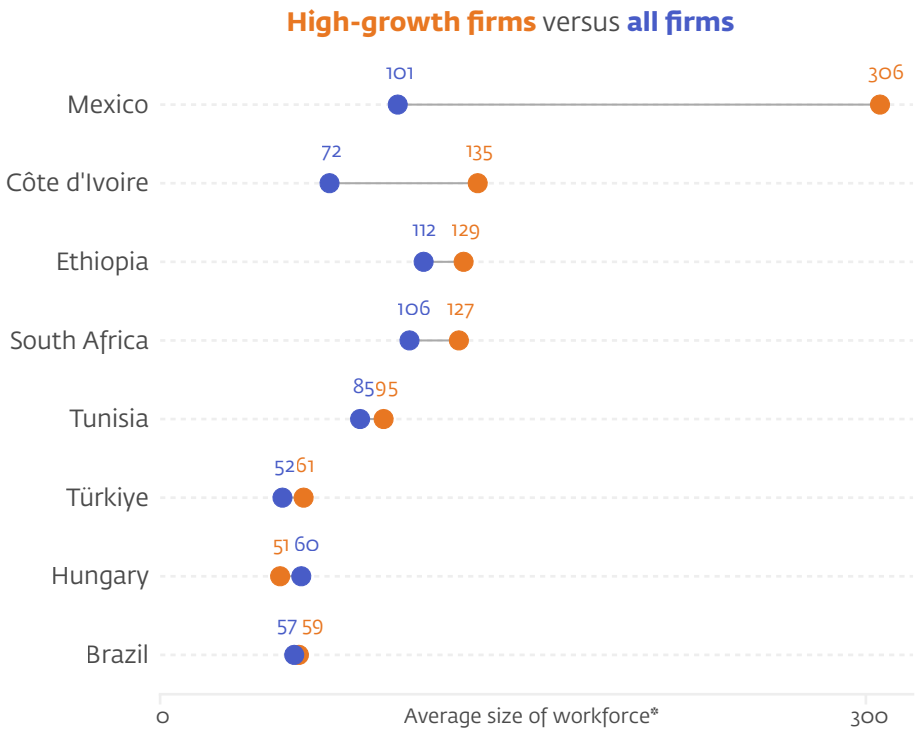
Young firms, though not necessarily small ones, create more jobs

Research shows businesses in their first five years add workers at a pace mature rivals seldom match. In developing or emerging economies, most firms are small and collectively account for half of total employment. For instance, 40-to-50 percent of employment in Burkina Faso, Cameroon, Ghana, and Rwanda is attributable to firms with less than 10 employees. In Türkiye, this figure is 43 percent, over 60% in Brazil, and nearly 80% in India. However, they often lack the capacity to create stable and long-lasting jobs, and are not more likely to grow. Many young firms grow and pivot faster, regardless of initial size, adopt newer equipment, update their processes and practices frequently, and recruit more digitally native employees. High-growth firms are primarily young — less than five years since launch: In Brazil they comprise 64 percent of high-growth firms, 62 percent in Côte d'Ivoire, 43 percent in Ethiopia, 61 percent in Hungary, and 35 percent in Indonesia. In Colombia, firms four years or less since starting up grow two to three times faster than older firms. That said, startups and young firms are also the ones more likely to face higher exit rates. These up-or-out dynamics, nevertheless, support entrepreneurial dynamism, productivity, and jobs growth, as evidenced in the United States.

Jain Agri Par, India © Dominic Chavez/IFC

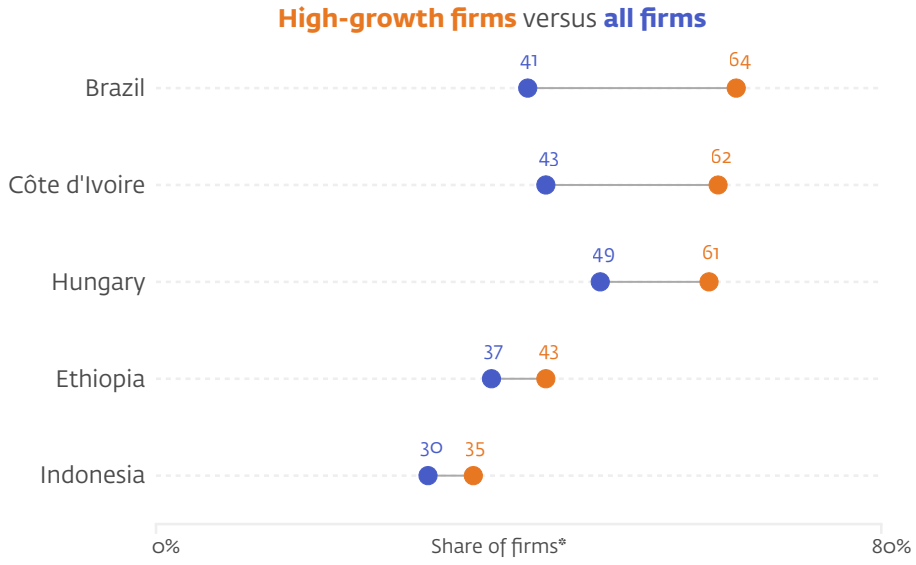
FIGURE 1

Panel A: The average starting size of firms that create jobs is, if anything, larger



* Average firm size is calculated using national surveys or census data for each country. High-growth firms are defined as those employing more than 10 workers and achieving an average annual employment growth rate of 20% or more over three consecutive years.
Source: Grover et al., (2019)

Panel B: A larger share of firms that create the most jobs are young



* Using national surveys or census data, the share of young firms is computed annually and averaged over the sample period for each country. Similarly, the share of young firms among total high-growth firms is calculated.
Source: Grover et al., (2019)

Location shapes hiring—even in an age of remote connectivity

Firms in regional or industrial clusters gain from cheaper supplier logistics, pools of skilled labor, and rapid diffusion of know-how. Two-thirds of Ethiopia's fast-growing manufacturers operate in urban agglomerations. Brazil's richer states and Mexico's metropolitan corridors show similar concentrations. Infrastructure upgrades amplify these effects, especially for younger companies that benefit from strong physical and digital connectivity.

Consider the impact of India's Golden Quadrilateral, a nearly 6,000-kilometer highway loop connecting the country's four largest metropolitan areas: New Delhi, Mumbai, Kolkata, and Chennai. The extensive highway upgrade helped propel the average factory size of the younger cohort of plants far more than that of other establishments by extending their physical market reach.

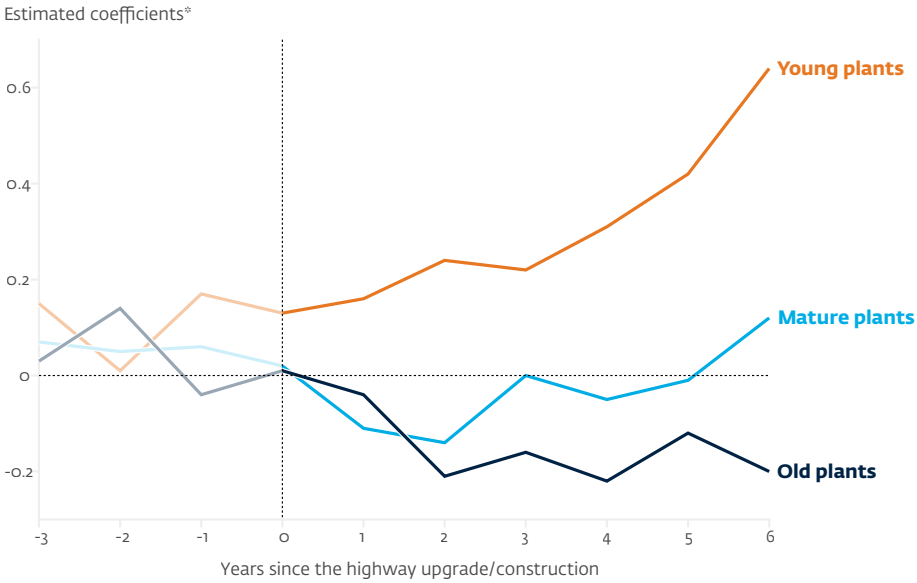
External linkages accelerate business growth and job creation

Firms that break into export markets, plug into multinational supply chains or import higher-quality components typically report faster revenue and productivity gains and larger payrolls than peers that stay local.

Indirect employment effects of multinational companies can also be large: Their activity across Africa is correlated with 13% higher off-farm employment. In Mozambique, the foreign direct investment job multiplier was estimated at 5.4 after natural resource discovery. In Costa Rica, domestic suppliers that clinched their first contract with a multinational company expanded headcounts by 27 percent within four years as they mastered stricter quality standards and burnished their reputations. In Uruguay, selling to multinationals domestically boosts the likelihood of exporting and expanding, especially to those companies' home countries, with suppliers improving quality standards,

FIGURE 2

Average size of young plants grows most along the highway network in India

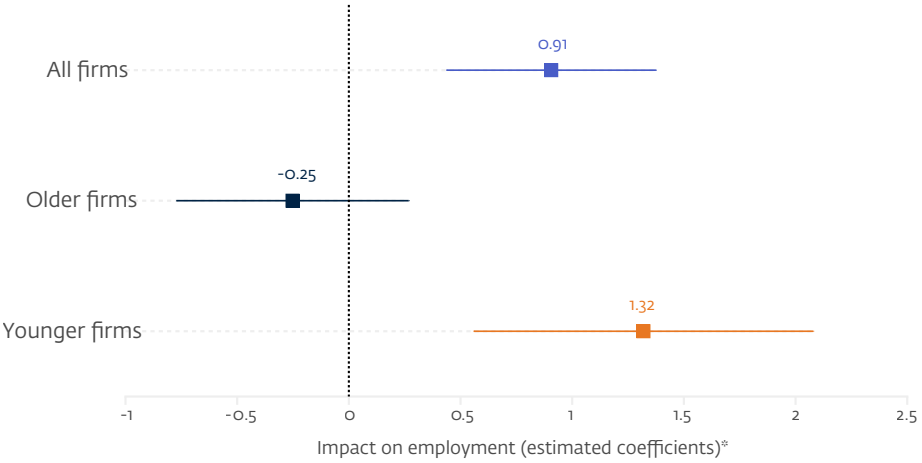


* This figure shows the evolution of the estimated coefficient for changes in average plant employment during the treatment period of Golden Quadrilateral highways, disaggregated by three plant cohorts.

Source: Grover et al., (2024)

FIGURE 3

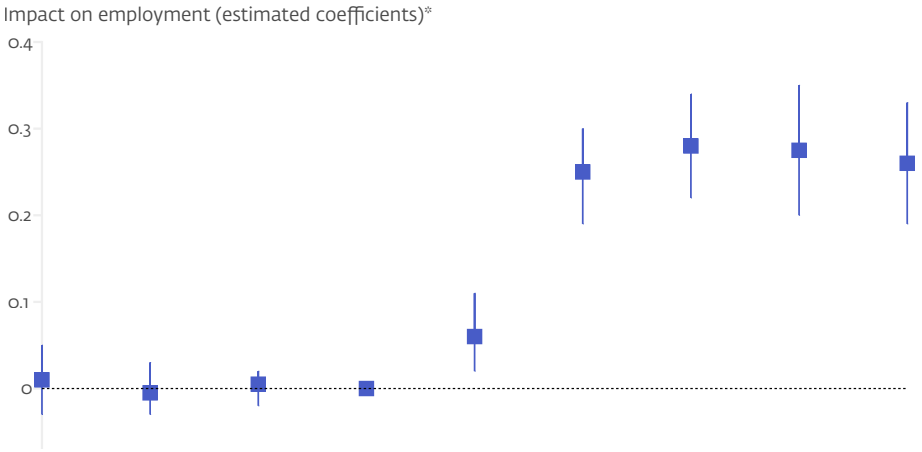
Panel A: Younger firms drive job creation effects for global value chain integration



* The rope ladder plot displays the estimated coefficients from a regression analyzing the impact of global value chain participation on job creation, distinguishing between average, old, and young firms.

Source: Ndubuisi and Owusu (2023)

Panel B: Multinational companies' suppliers expand jobs through spillovers from business networks



*The rope ladder plot illustrates the coefficient estimates from an event study examining the employment impact of firms beginning to supply to multinational companies.
Source: Alfaro-Ureña et al., (2022)

internal procedures, and marketing efforts to attract new opportunities. Foreign direct investment exposure boosted job growth, sales, and productivity in Ethiopia through supply chain linkages and competition, propelling upgrades in technology. Evidence from South Africa traces companies before and after they join global value chains. Almost all of the additional hiring comes from new participants that scale rapidly once foreign demand materializes. Viet Nam's experience also demonstrates the potency of global linkages. As trade and foreign direct investment rose, foreign-owned factories increased their share of national employment by 19 percentage points.

New global value chain firms create jobs by hiring workers for new roles. Their interaction with other firms in the value chain also stimulates job creation indirectly through increased demand for products. Whereas older and larger firms are more likely to integrate in production networks, job creation with global value chain participation is driven by younger firms yet to exhaust their internal economies of scale.

Strong management and technology adoption matter for both productivity and job growth

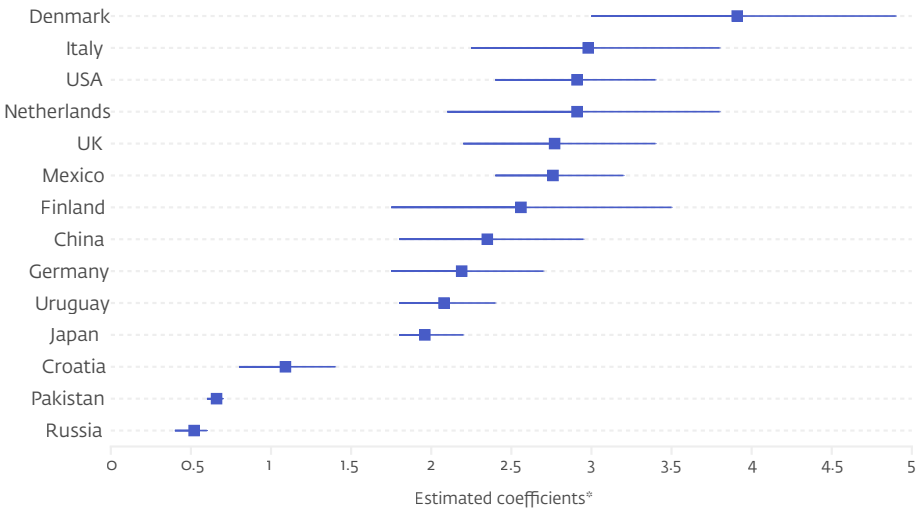
Structured management and operational practices that demonstrate more potent management leads to both higher output per worker and an increase in a business' ability to raise funds.

In Brazil, high-growth companies employ workers with, on average, an extra year of schooling and pay above-average wages. Better managerial practices also improved working conditions in Bangladesh by promoting occupational safety and health compliance.

Likewise, firms that adopt digital technologies reduce their cost of coordination and communication, enabling them to transform their production processes and business models. Colombian businesses with reliable broadband exported more and spent more on staff training. Across Africa, better internet access lowered barriers to firm entry, improved productivity, allowed integration into global value chains, and promoted foreign direct investment, all of which facilitated job creation, typically in skilled occupations and nonagricultural activities.

FIGURE 4

Better-managed firms are larger, especially in countries with competitive business environments



* This figure presents a rope ladder plot of estimated coefficients from a regression of firm size on management scores, based on Management and Organizational Practices Survey data collected across countries, following the methodology of Bloom et al., (2010).

Source: Scur et al., (2024)

Targeting high-growth-potential firms with appropriate tools

Due to the trajectory of their evolution, younger firms in emerging economies are more likely to create jobs and grow faster than older firms, regardless of their size. Accelerating net job creation requires tools such as financial instruments and business upgrading services, including mentorship, to expand networks with other businesses that intentionally target firms with demonstrable high-growth potential. IFC and peer institutions can play a catalytic role by expanding direct equity stakes in mid-sized younger enterprises with stronger fundamental attributes, and by anchoring venture capital and private equity funds that specialize in such companies.

Complementary analytical tools, such as screening algorithms or sector diagnostics, are needed to identify firms whose business models, market positioning, and managerial depth make sustained employment growth more plausible. At the policy level, streamlined registration and licensing procedures can improve allocative efficiency by lowering entry barriers for productive young firms. Moreover, a conducive business environment with a broad set of regulations encompassing labor, tax, property rights, standards, trade, foreign direct investment, contracts, and industrial and competition policies that support allocation of resources to the most able firms can go a long way in their hiring expansion. Targeted regulatory interventions that involve the creation of new regulatory structures or incentives for equity financing and new platforms for trade and finance, or those that lower the risk for angel investors (as in Malaysia), can be instrumental for private sector job creation.

Kioo Glass Factory, Tanzania © Maria Galang/IFC

Job creation can also be enabled when firms are incentivized to connect to production networks and improve managerial and technological capabilities at scale. Investments that widen access to supply-chain financing, factoring, and trade-finance facilities enable constrained suppliers to integrate into global value chains and to exploit export demand. Analogous to business networks, place-based clustering of economic activity — in special economic zones, industrial clusters, and science and technology parks — can amplify job creation effects when paired with efficient land-use regimes and high-quality physical and digital infrastructure.

In addition, firm upgrading programs tailored to local contexts and bundled with targeted financial incentives, such as vouchers, grants, equity financing, and loan guarantees, can help firms adopt modern processes and technologies and alleviate constraints to growth. Business advisory services modeled on successful agricultural extension programs can be adapted to a broader group of firms to improve managerial practices.

Direct public support to firms requires careful consideration of the objectives and targeting strategy, particularly if the goal is to create more jobs by helping high-growth-potential firms overcome hurdles and realize their latent growth. Effective targeting should ensure that assistance and initiatives, whether financial support or skill upgrades, are matched to the specific challenges firms face to maximize impact. For example, if young firms have constraints other than finance, providing them with public financial support may unintentionally divert resources from truly constrained firms that can make the most of the capital. Together, the suggested measures — capital, connections, and capabilities, combined with a well-targeted policy environment — can enable firms with high-growth potential to turn private investment into widespread employment growth.

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Cover Photo: Ampersand electric bike factory, Rwanda © Julia Schmalz/IFC

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