Portrait of Oregon Businesses by Size of Firm

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What does it mean to talk about business size? In public policy discussions it often means analyzing relationships between the size of a business and its impact on the economy. In the United States, a common point of debate is whether small businesses are the drivers of private-sector job creation. Underlying this debate are numerous statistical and measurement issues that make definitive answers difficult to come by.

The purpose of this article is to provide information about Oregon private-sector businesses by size of firm, with careful attention to how such firms are classified and counted. The figures presented here offer details about Oregon's economy at a specific point in time, but they do not describe dynamic processes such as economic growth or job creation. Because of the nature of the data, this analysis makes no claims for or against the job-creating power of small businesses.

Getting to Know the Data

Size of firm data

Oregon Firms, Employees, and Total Wages by Size Class, 2013

Size Class	Number of Firms	Percent of Total	Number of Workers*	Percent of Total	Total Wages**	Percent of Total
1-4	54,376	58.9%	104,846	7.7%	$941,094	6.2%
5-9	17,188	18.6%	113,144	8.3%	$878,425	5.8%
10-19	10,377	11.2%	139,888	10.2%	$1,158,401	7.7%
20-49	6,469	7.0%	194,099	14.2%	$1,840,598	12.2%
50-99	2,048	2.2%	140,699	10.3%	$1,458,405	9.7%
100-249	1,269	1.4%	190,625	13.9%	$2,047,062	13.6%
250-499	370	0.4%	125,317	9.2%	$1,450,790	9.6%
500+	263	0.3%	359,910	26.3%	$5,307,396	35.2%
Total	**92,360**		**1,368,528**		**$15,082,171**	

* March employment
** First quarter, thousands

presented in this article come from the Quarterly Census of Employment and Wages (QCEW) program. This program collects information from quarterly tax reports filed by employers under Oregon unemployment insurance (UI) laws. Employers subject to UI reporting requirements account for approximately 95 percent of all employment in Oregon.

This article defines a firm as "a single business, either corporate or otherwise, that may consist of one or more operating establishments in Oregon." We follow Bureau of Labor Statistics (BLS) methods by using March employment figures from private-sector employers to classify individual firms. For example, a firm reporting seven employees in March 2013 is placed in the "5-9" size class for 2013. Data on number of firms and wages at those firms are based on first quarter reports for the specified year. We omit firms reporting zero employment.

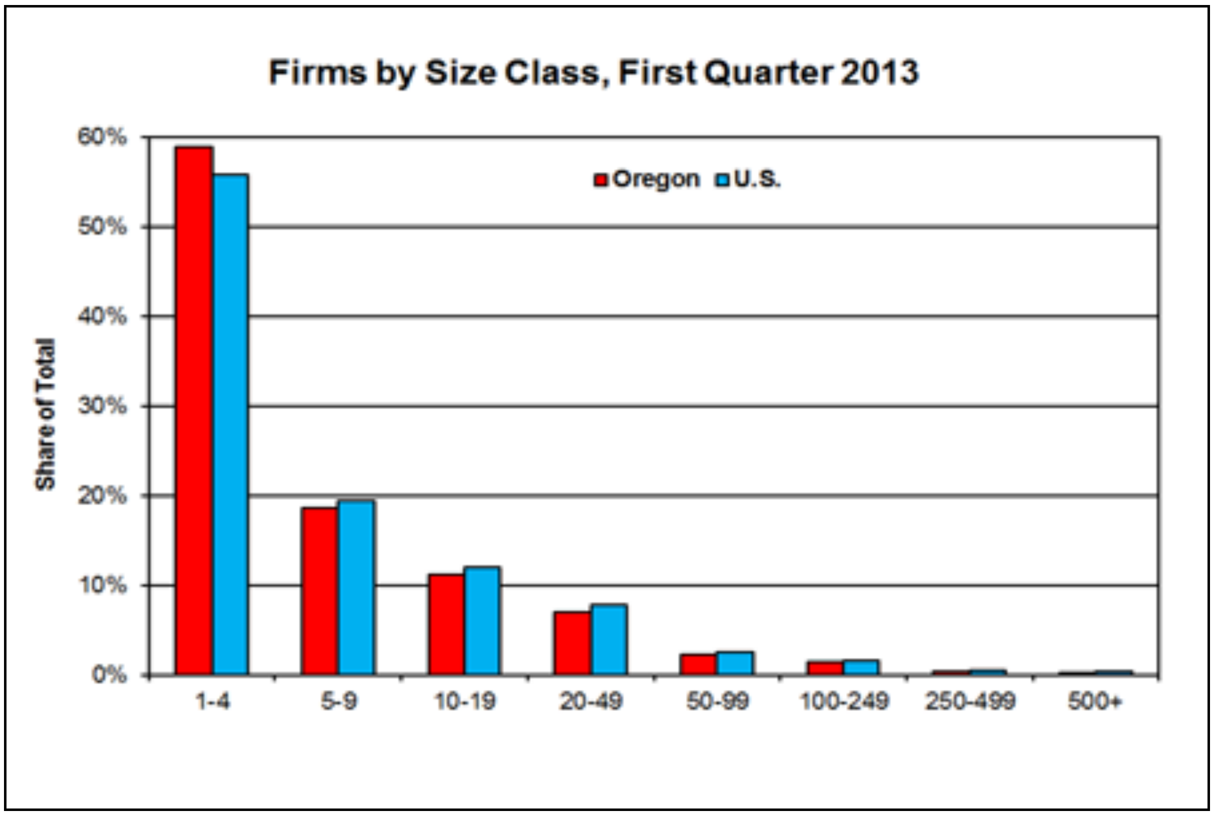
Oregon Size of Firm Data for 2013

More than half of the private-sector firms in Oregon had fewer than five employees in March 2013. Firms with fewer than 20 employees accounted for 89 percent of all Oregon firms. The number of firms in each size class decreases steadily as the size class gets larger (Table 1).

Although smaller firms are more numerous, they generally employ a smaller share of the total number of workers than larger firms. For example, the 89 percent of Oregon firms with fewer than 20 employees accounted for about 26 percent of private-sector employment in 2013. By comparison, firms with 250 employees or more represented less than 1 percent of the total number of firms but employed about 36 percent of Oregon workers.

The distribution of wages paid in Oregon follows a pattern similar to that of the number of workers. The share of total wages for a given size class is generally within a few percentage points of the share of total employment for that size class. Among firms with fewer than 250 employees, the share of total wages falls below the share of total employment for each size class. The share of total wages is slightly higher than the share of total employment for firms with 250-499 employees. Among the very largest firms, the share of total wages exceeds the share of total employment by 9.3 percentage points – a gap that continues to grow wider over time.

There is a striking contrast between the distribution of firms and the distributions of employment and wages by size class, but it is important to consider this in context. These figures do not imply that smaller firms are underperforming when it comes to job creation, or that larger firms are experiencing a bonanza. By definition, firms that experience consistent growth will eventually be counted in the next-largest size class, as will all of their employees. On the other hand, firms that lose employees will pass into smaller size classes. Businesses expand, contract, or stay the same size depending on a host of factors. The figures in Table 1 do not provide us with information about these dynamic processes. Instead, they offer a snapshot that helps us understand the roles of small and large firms in Oregon's economy at a specific point in time.

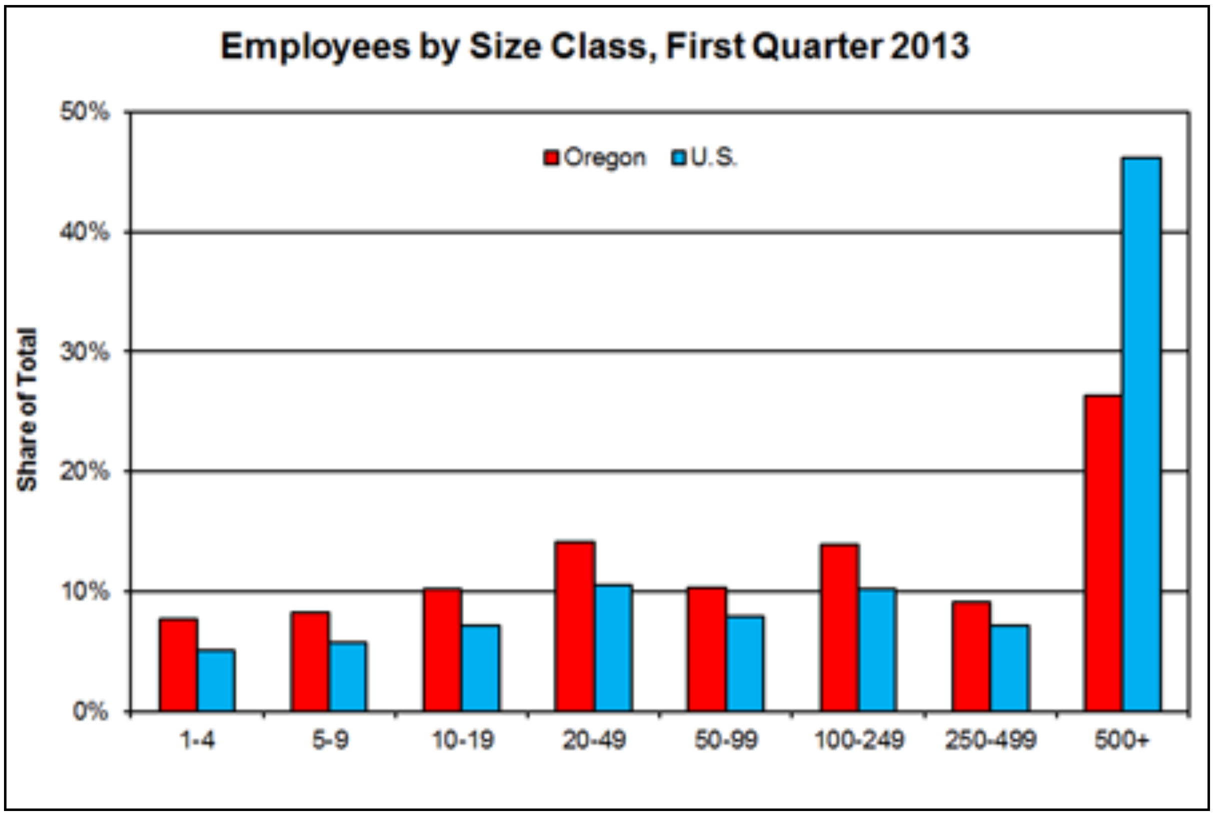


Definitions Count: Oregon Compared With the Nation

How do size of firm distributions in Oregon compare with data for the U.S. as a whole? In 2013, the distribution of firms by size class at the national level is remarkably similar to Oregon's. The largest difference is in the smallest size class, where Oregon's share of private firms is 3 percentage points higher than that of the U.S. as a whole. For every other size class, Oregon's shares are slightly lower than shares at the national level (Graph 1).

Differences between Oregon data and national data are more pronounced when comparing employment distributions. In all but the largest size class, Oregon's share of employment is at least 2 percentage points higher than the corresponding U.S. share. As a result of this shift, Oregon's share of employment in the largest size class is 20 percentage points lower than the national share (Graph 2).

These differences do not necessarily mean that large businesses employ fewer people in Oregon than they do elsewhere in the U.S. Instead, they are largely a result of the way firms are counted. A firm that operates in multiple states will be counted as one firm at the national level and classified based on its total number of employees in all states. It is far more common for a firm to have 500+ employees throughout the entire United States than it is for a firm to have 500+ employees in a single state. One consequence of counting firms in this way is that some of the employment attributed to smaller firms at the state level is actually associated with larger national firms.



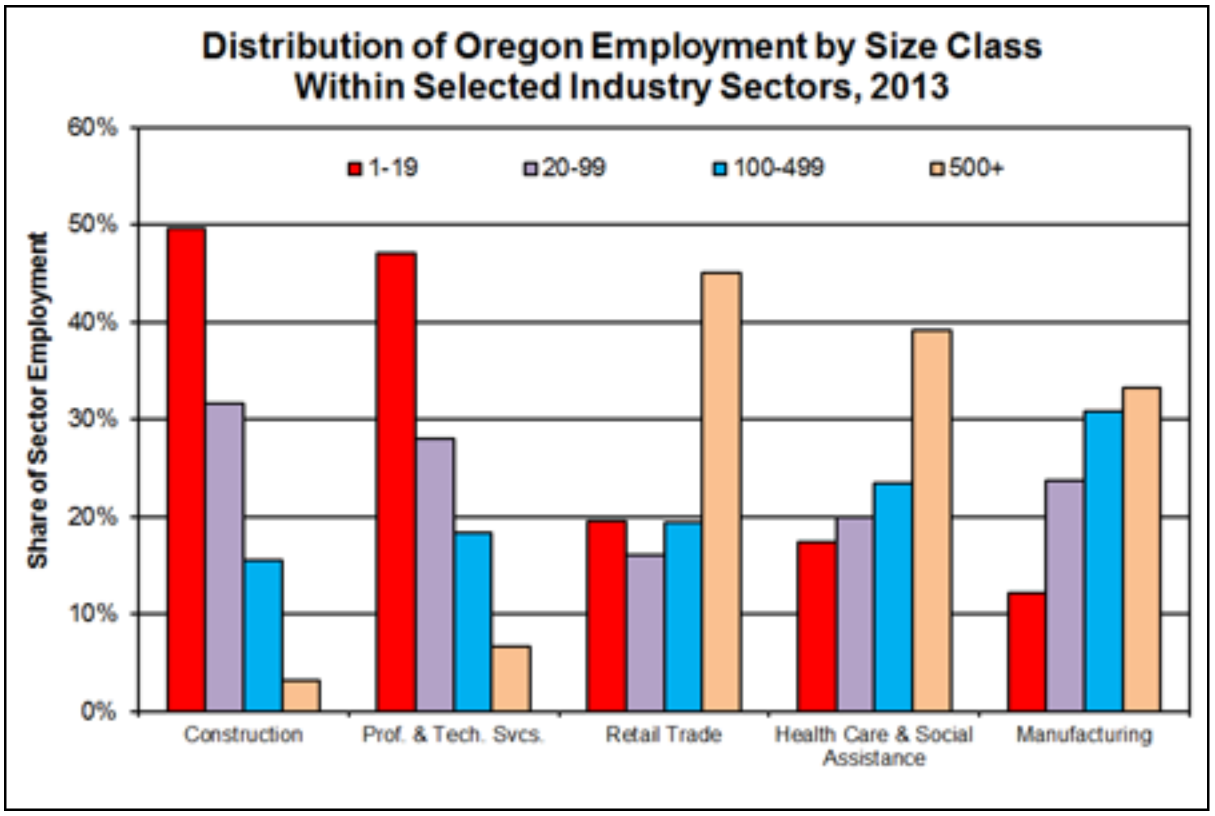
Firm Size Is Related to Industry

What is the relationship between industry and firm size? If we examine the distribution of employment by size class within various industry sectors, a simple but important fact emerges: jobs are not concentrated in the same-sized firms for all industries (Graph 3).

Small firms play a particularly prominent role in the construction and professional and technical services sectors. In the first quarter of 2013, firms with fewer than 20 workers accounted for 50 percent of private employment in construction and 47 percent in professional and technical services. Recall that among all industries combined, the share of employment in this size class was 26 percent.

At the other end of the spectrum, retail trade is dominated by the largest firms. Companies with 500 or more workers employ more than twice as many people as any other individual size class in this sector. The distribution of employment in health care and social assistance is similar to that of retail trade. Larger firms also employ the majority of workers in manufacturing, but the distribution is more even than in retail trade or health care. Still, firms with at least 100 workers account for almost two-thirds of manufacturing employment, and firms with at least 20 workers account for 88 percent.

The distribution of industry employment within firm size classes is related to the definitions of the industries themselves, which are based on production processes and production technologies. For example, the manufacturing sector contains businesses "engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products." Manufacturing activities commonly take place in factories, mills, or similar facilities, and involve the use of power-driven machines and equipment.



By contrast, the professional and technical services sector is made up of firms engaged in activities where the expertise of the service provider is the major input. Firms in this sector include offices of lawyers, engineering services, advertising agencies, interior design services, and the like. It is certainly possible for a firm in the professional and technical services sector to employ 50, 100, or 500 people, as the figures in Graph 3 confirm. However, it makes intuitive sense that we would see fewer large firms here than in manufacturing, given the differences in the two industries' production processes and production technologies. The data in Graph 3 support this intuition.

What We Still Don't Know

This article has used QCEW data to develop a snapshot of Oregon private-sector businesses by size of firm in 2013. Along the way we have explored measurement issues and definitions that help fashion the portrait that emerges. Understanding these details helps us to formulate questions our data can answer, and to perceive the limits of the answers we receive. For example, we know that 54,376 Oregon firms reported between one and four employees on their payroll in March 2013. But how many of these firms were "mom & pop" family businesses? In what industries did they operate? How many were franchises? How many were local outposts of national or multinational enterprises? Even when we can't answer the question, we benefit from recognizing what we still don't know.

Southwestern Oregon