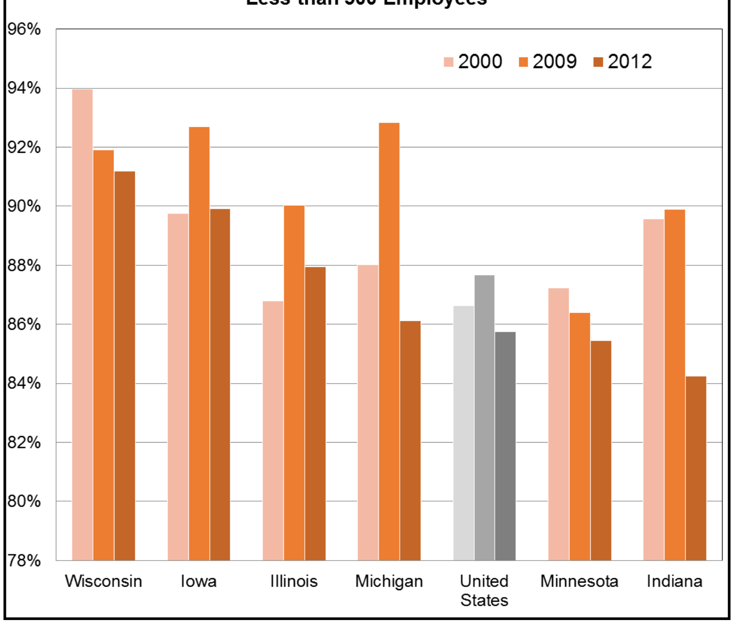
Community Economic Development

Wisconsin Job Creation: Small or Big Businesses?

Job growth remains one of the central focuses of economic growth policies. Elected officials often state that their economic policies have three goals: jobs, jobs, jobs. But this raises the question about the source of job creation. Historically we look at patterns in industry as well as occupational data. Some industries and occupations, such as health care, show strong historical growth patterns and likely continued growth into the future. Other industries and related occupations, such as manufacturing, demonstrate weaker employment growth patterns. Traditionally this type of industrial and occupational analysis drives much of our thinking about where job creation comes from.

At the same time the importance of small businesses as a major piece of the economic growth puzzle has become clear. The resurgence of interest in Schumpeterian entrepreneurs who can revolutionize an industry through “creative destruction” along with Julien entrepreneurs who are focused on more commonplace business opportunities has caused a dramatic shift in how many communities think about and pursue economic growth and development strategies. But should that focus be on helping the very smallest of small businesses or businesses that have a few dozen employees? One way to think about this question addresses what we mean by “small” when we say small business. Is the smallest a sole proprietorship with no employees other than the owner or even micro-enterprises who may have less than five employees? Or is the US Department of Commerce’s Small Business Administration definition of a small business as any business with less than 500 employees appropriate? Clearly, the needs of a firm with four employees is fundamentally different than one with 400. A second way to think about the question is to look at which classification of firms (by employment size) are the primary sources for new jobs. Is it smaller, medium or larger firms that are responsible for most of the job creation in Wisconsin?

Figure 1: Share of Job Creation From Businesses with Less than 500 Employees



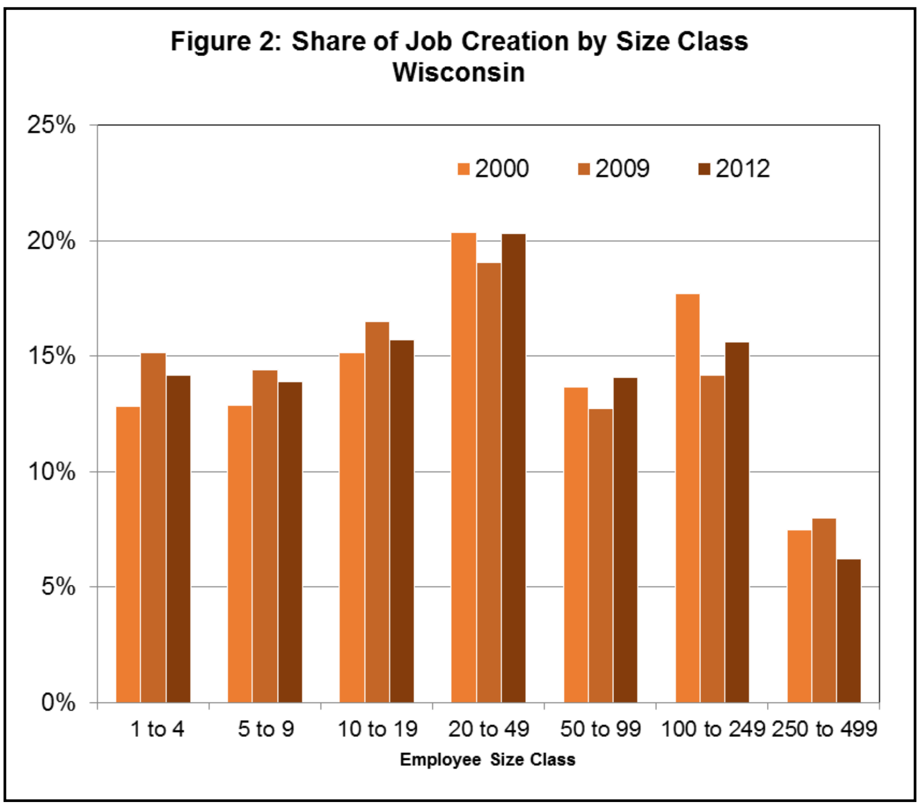
For Wisconsin in 2012, 91% of job creation came from businesses with less than 500 employees (Figure 1). Indeed, when compared to our neighboring states, Wisconsin has the highest share of employment creation being driven by firms with less that 500 employees.

If the vast majority of job creation comes from businesses with less than 500 employees, then which size category generates the most job creation? Wisconsin firms that have between 250 and 499 employees accounted for between 6 and 8% over the study period of 2000 to 2012 and firms with between 100 and 249 employees contributed about 15% of job creation (Figure 2). Taken in total, firms that have at least 100 employees accounted for two in three jobs created in Wisconsin. Clearly, smaller businesses, those with less than 100 employees, accounted for the majority (two-thirds) of job creation in Wisconsin.

Now consider even smaller classification of businesses: firms with between one and four employees, what might be considered "microenterprises" accounted for 14% of job growth and firms with between five and nine employees also accounted for about 14% of job creation in 2012. This means that small firms, those with less than ten employees account for just less than 30% of job creation in Wisconsin. The category that accounts for the single largest share of job creation could be classified as small to medium size, those with between 20 and 49 employees. In another analysis of small businesses we found that in 2013 71% of all businesses in Wisconsin are classified as nonemployer businesses (businesses with no employees other than the proprietor) and when we combine that observation with the results visualized in Figure 2 it becomes clear that smaller businesses are a vital component of the "jobs, jobs' jobs" emphasis in economic policy.

The implications of these findings on economic policy at the state and local level are pronounced. It is readily evident that the needs of large businesses (over 500 employees) are different from medium sized firms (100 to 499 employees) and are vastly different from smaller firms and in particular the smallest firms (less than 5 employees). The question is if our policies are refined enough to reflect those differences while at the same time flexible enough to be crafted to meet the needs of these different size firms. The diversity of firms by their age and size require an approach to promoting job growth that is flexible, capable of targeting key job creators. Communities that support their smallest of businesses are better positioned for expanding employment opportunities.

Job creation, job destruction and job growth, what are the differences? Businesses create jobs when they open or expand, but they also destroy jobs when they close or scale back. The net of job creation and destruction is net job gain or job growth. When the media talks about monthly job growth, they are talking about net job gain (or loss). In this fact sheet we are interested only in job creation.



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