Small businesses and their employees

About half of all private sector workers are employed in small business; work hours, compensation, and other working conditions differ between these employees and their counterparts in larger establishments

William J. Wiatrowski

A vital, yet volatile part of the U.S. economy consists of private sector businesses with fewer than 100 workers. Such enterprises, referred to here as "small establishments," often lead the way during times of prosperity and economic growth, as new enterprises open and existing ones hire more workers. But during business downturns, small establishments are often among the first to be forced to reduce employment or close.

One-half of the nearly 90 million people working for private businesses are in small establishments. The Nation is filled with success stories of establishments starting as small businesses: the story of Apple Computer Co. starting in a garage is just one example. Yet small businesses or small establishments are difficult to define, and data on these enterprises often use differing definitions. This article examines several data sources to determine what information is available, and discusses labor force characteristics of persons employed in small businesses, compensation costs, and working conditions. It also looks at data on current conditions in small businesses, as well as external influences, such as laws and regulations specifically aimed at small establishments.

What is a small establishment?

According to the Office of Management and Budget, an establishment is "an economic unit, generally at a single physical location, where business is conducted or where services or industrial operations are performed."[1] An establishment is not necessarily a firm; it may be a branch plant, for example, or a warehouse. From this universe, establishments are grouped according to the number of workers they employ. For the purposes of this article, establishments with fewer than 100 workers are considered small establishments. Thus, small establishments may include a "Mom and Pop" grocery store or a small storage facility for IBM.

Sources of data

Two types of surveys provide data on small businesses: establishment surveys and household surveys. In establishment surveys, the unit of observation is a single location, as defined by the Office of Management and Budget. Data on the number of workers employed at the establishment at a given time can be obtained in these surveys. For certain data in the establishment series, attempts are made to categorize establishments by affiliation with a larger enterprise. This can be difficult, as relationships between establishments are often unclear. Few data are available at the firm level, that is, for all units that make up a single company.

Household surveys collect data directly from individuals. Such surveys can provide consider-

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able detail on worker demographics. However, data on establishment size, which may be collected from the worker or a household member, are difficult to interpret. Respondents are asked to estimate the size of the establishment in which they are employed, but the accuracy of such self-reported data cannot be confirmed. It may be unclear whether the data refer to the specific jobsite or some other entity.

This article uses data developed by the Bureau of Labor Statistics. For household data, BLS uses the Current Population Survey (CPS), a monthly survey conducted by the Bureau of the Census. From approximately 60,000 households chosen to represent the U.S. population 16 years of age and older, the CPS collects considerable detail on demographics from personal interviews. CPS data are used by the U.S. Department of Labor and by other organizations, both government and private. Many of the data used in this article were tabulated by the U.S. Small Business Administration.

The BLS establishment-based surveys that collect data focusing on particular topics, such as compensation or safety and health, and report data by size of establishment are used in this article. Such surveys include the Employee Benefits Survey, which measures the availability and details of benefits; the Employment Cost Index, which measures the level of and change in employer costs for wages and benefits provided by employers; and the Survey of Job-related Injuries and Illnesses, which measures the incidence of occupational fatalities and nonfatal injuries and illnesses, and classifies the severity by lost workday cases.

Other sources of data on small establishments include the Small Business Administration and the Internal Revenue Service. These agencies conduct their own surveys, compile data submitted for regulatory purposes, or serve as clearinghouses for data. Some data from these organizations are used in the analysis for this article.

Table 1. **Employment by size of establishment, private sector, 1992**

Establishment size	Establishment		Employee	
	Total	Percent	Total	Percent
All size classes	6,277,417	100	87,458,218	100
Fewer than 5 workers	3,664,934	58	5,950,478	7
5–9 workers	1,147,950	18	7,564,035	9
10–19 workers	705,954	11	9,494,997	11
20–49 workers	468,757	8	14,190,050	16
50–99 workers	160,863	3	11,044,016	13
100 or more workers	128,959	2	39,214,642	44

Table 2. **Employment in small, private establishments, by industry 1992**

Industry	Employment level	Percent of employment in the industry
Mining	316,647	50
Construction	3,368,921	82
Manufacturing	5,298,322	30
Transportation and public utilities	2,434,685	45
Wholesale trade	4,548,785	76
Retail trade	13,566,299	72
Finance, insurance, and real estate Services	3,553,980	55
Services	14,081,365	53

NOTE: Small establishments employ fewer than 100 workers.

The labor force

Approximately 48 million workers—a little more than one-half of all private sector workers—were employed in 6 million small establishments during 1992.[2] Small establishments make up about 98 percent of all the establishments in the Nation. The remaining 2 percent of establishments (130,000), those with greater than 100 workers, employed 40 million workers. (See table 1.)

Not surprisingly, employment in small establishments is not uniformly distributed among industries. Certain industries, such as construction, wholesale trade, and retail trade, have a large proportion of their employment (more than 80 percent in the case of construction) in small establishments. Frequently, these establishments start up business and expand employment during economic expansions, and drop employment or go out of business during downturns. In contrast, 30 percent of manufacturing employment and 45 percent of transportation and public utilities employment are in small establishments. (See table 2.)

The occupational mix of small and large establishments differs as well, and parallels the differences by industry.[3] For example, small establishments tend to employ a larger proportion of precision production and service workers. This corresponds to the greater proportion of construction and retail trade employment found in small establishments. Alternatively, more operator, fabricator, and laborer occupations—traditional blue-collar occupations—can be found among large employers, where more manufacturing and transportation employment exists. The following tabulation shows occupational employment among small and large private establishments, in 1988:

	Small establishments	*Large establishments*
Managerial and professional ...	23.1	24.4
Technical, sales, and administrative support	32.3	33.3
Service	13.5	9.2
Precision production, craft, and repair.....	15.4	12.6
Operators, fabricators, and laborers ...	14.7	20.2
Farming, forestry, and fishing	1.0	.3

Variations in employment by age exist between small and large establishments. For example, older workers are more likely to be in small establishments. In addition, a greater percentage of small establishment employment consists of younger (aged 16–24) workers while a greater share of large establishment employment consists of 25- to 44-year-olds.

	Small establishments	*Large establishments*
16–24 years	22.2	17.0
25–44 years	51.9	58.1
45–64 years	22.5	23.7
65 years or older..	3.4	1.2

Some differences by establishment size exist in the educational attainment of workers. As the following tabulation shows, in 1988, a greater proportion of employees in small establishments have completed fewer than 4 years of high school. In contrast, among large establishments, a greater proportion of employees have completed 4 or more years of college.

	Small establishments	*Large establishments*
Less than 4 years of high school..	18.6	14.3
4 years of high school to 3 years of college	63.0	63.0
4 years of college or more	18.4	22.7

Hours of work

Differences in hours worked and full-time/part-time status reflect the seasonal nature of some small businesses, notably construction and retail trade. Full-year employees work 50 to 52 weeks per year, excluding vacations and other time off. Part-year workers do not meet this threshold. The part-year data, especially, are indicative of certain occupations, such as teachers, and certain industries, such as construction.

Part-time employees, as defined by the CPS, work fewer than 35 hours per week, while full-time employees work 35 or more hours per week. The definition of part-time differs in most establishment surveys, where part time is defined by the establishment, and frequently refers to those scheduled to work fewer hours per week than full-time workers engaged in the same type of work activity.

The following tabulation shows that in 1988 a greater proportion of employees in large establishments work full-year/full-time than in small establishments, and a greater proportion of employees in small establishments work other combinations of time:

	Small establishments	*Large establishments*
Full-year/full-time ..	61.4	75.1
Full-year/part-time..	10.7	6.5
Part-year/full-time ..	17.0	11.8
Part-year/part-time..	10.9	6.6

Workweek data reflect similar findings. The greater percentage of employees in small establishments working fewer than 52 weeks per year in 1987 reflects a predominance of construction and sales industries:

	Small establishments	*Large establishments*
1–26 weeks.....	11	7
27–49 weeks.....	16	12
50–52 weeks.....	72	82

Laws and regulations

Federal and State laws and regulations covering compensation and other labor practices often do not apply to small businesses, or are modified for small businesses.

One example of modified laws for small business pertains to employer-provided retirement benefits, which are governed by Federal law, the Employee Retirement Income Security Act of 1974, and subsequent amendments. This law requires employers who provide retirement benefits to follow certain procedures to ensure that funds intended for employee retirement income are in fact available to employees upon retirement. The law includes a pension insurance fund, rules against discrimination in pension plan participation and benefit amounts, rules for keeping plan participants notified about plan provisions and plan financing, and rules for keeping the Federal Government notified about provisions and financing. These rules, most notably the rules on disclosure to the Federal Government, are modified for small establishments. The

rationale behind this modification is to reduce the administrative burden of operating a pension plan.

The Family and Medical Leave Act of 1993 mandates employers to make unpaid time off available to employees for personal illness; the birth, adoption, or illness of a child; or the illness of a relative. However, the law specifically excludes employers with fewer than 50 employees. Of course, it is not always easy to identify these employers. Just as the definition of an establishment and a firm can be difficult to apply, so too is the application of the 50-employee limit for coverage under the Family and Medical Leave Act. For example, the law states that employers who have "50 or more employees for each working day during each of 20 or more calendar workweeks in the current or preceding calendar year" are covered. In counting such employees, those who have worked fewer than 1,250 hours in the previous 12 months are not considered. In addition, the 50-employee limit does not apply to a single physical location, but to the establishment and all other worksites within 75 miles operated by the same employer. As these complicated regulations suggest, determining what is a small business and to which laws a business is subject can be a difficult task.

Compensation data

Data on wages and employer-provided benefits indicate differences both in the level of compensation provided and the composition of that compensation between small and large establishments. Several data series can be used to observe these differences. Data on employer cost per hour worked for employee compensation provide one measure of differences in compensation. These data include compensation costs, which are totaled and then divided by hours worked, that is, scheduled hours minus leave, such as vacations and holidays. The result is an hourly cost for wages and for each of several employee benefits. Chart 1 shows that large establishments spend a greater proportion of their compensation dollar on benefits than do small establishments.[4] Chart 2 shows that costs per hour worked in large establishments were higher ($12.88 for wages, and $5.64 for benefits) than the costs in small businesses ($10.75 for wages and $3.81 for benefits).

A closer look into benefit costs reveals that employers of all sizes spend more on legally required benefits, such as Social Security, unemployment insurance, and workers' compensation, than on any other benefit category. But, in small establishments, these benefits make up a greater proportion of total compensation costs (10.1 percent, compared with 8.7 percent among large establishments). One reason for this difference is that small businesses provide fewer of the other benefits than do larger establishments. Thus, more of their benefit dollar is allotted for required items.

Another noticeable difference in benefit costs is among paid leave benefits, such as vacations, holidays, and sick leave. Large establishments spent $1.36 per hour worked on such benefits in 1993, compared with $0.81 for smaller establishments. This is attributable in part to the higher wages found among large establishments. Such higher wages increase the cost of providing paid leave benefits.

The composition of the labor force in small versus large establishments has some effect on differences in compensation costs. As noted below, employees covered by a collective bargaining agreement tend to receive higher wages and more costly benefits than those not covered by such an agreement. A greater proportion of employees in large establishments are covered by collective bargaining agreements, resulting in higher compensation costs among large establishments. In another example, service occupations, which are prevalent in small establishments, have low wages and overall compensation costs; this will affect the lower costs found in small establishments.

Chart 1. Distribution of total compensation costs by size of establishment, private sector, 1993

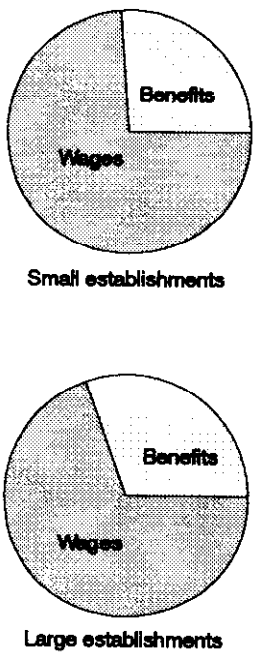
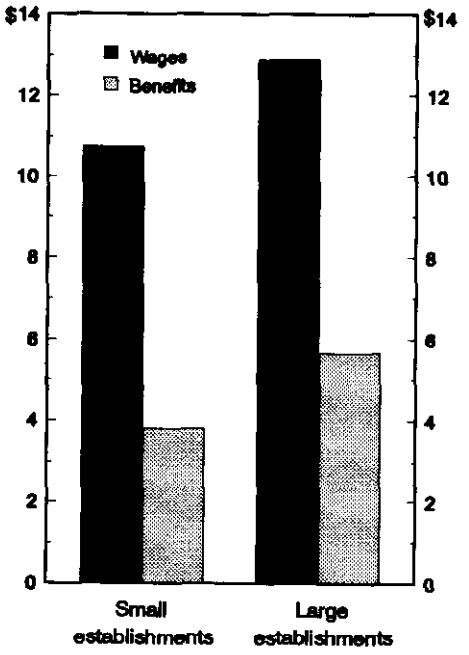


Chart 2. Compensation costs per hour worked, by size of establishment, private sector, 1993



Differences in other benefit costs are related to the extent to which benefits are provided in smaller and larger establishments. On average, large establishments have a greater cost per hour worked and a greater percent of compensation costs spent on leave, insurance, and retirement benefits than do smaller establishments. These data correspond with information on the percent of full-time employees who participate in benefit plans by size of establishment, as the following tabulation shows:[5]

	Small establishments, 1992	*Large establishments, 1991*
Paid vacations	88	92
Paid holidays	82	96
Paid sick leave	53	67
Medical care	71	83
Dental care	33	60
Life insurance	64	94
All retirement benefits	45	78
Defined benefit pension	22	59
Defined contribution plan	33	48

For employees who receive benefits from their employer, the details of those benefits tend to be similar, regardless of size of establishment. For example, among employees covered by medical care plans that require participants to pay a deductible before services are reimbursed by the plan, the average deductible among small establishments was $220 per year, compared with $198 per year among large establishments. Similarly, among employees covered by a defined benefit pension plan, where future benefits are determined by an established formula, the average benefit amount in small establishments was 1.63 percent of earnings, times years of service. In large establishments the average benefit amount was slightly lower, 1.49 percent of earnings, times years of service.

In medical care plans, about the same proportion of full-time workers in small and large establishments were required to contribute toward the cost of the premium: One-half of the workers with coverage for self only were required to contribute toward the cost of coverage, and three-fourths of those with family coverage were required to contribute toward the cost of coverage. However, there was a difference in the average monthly contribution to health care benefits by establishment size:

	Small establishments, 1992	*Large establishments, 1991*
Employee coverage	$37	$27
Family coverage	$151	$97

Finally, for full-time employees who receive paid vacations, the average number of days available after certain years of service is greater in large establishments than in small establishments, and that difference tends to get larger as years of service increase, as can be seen in the following tabulation:

	Vacation days	
	Small establishments, 1992	*Large establishments, 1991*
After 1 year	7.6	9.3
After 5 years	11.5	13.4
After 10 years	13.5	16.5
After 15 years	14.5	18.7
After 20 years	15.1	20.4
After 25 years	15.3	21.5

Collective bargaining

One factor influencing differences in compensation levels by size of establishment may be the presence of a collective bargaining agreement.

It is well established that workers covered by a collective bargaining agreement, on average, receive higher wages and are more likely to receive certain benefits than workers not covered by such an agreement. For example, according to the BLS Employment Cost Index, employers spent $21.86 per hour worked for the wages and benefits of union workers in 1993, compared with $15.76 for nonunion workers.

Benefit incidence varies widely between union and nonunion workers. The following tabulation shows the percent of full-time workers who receive certain benefits, based on union representation in small establishments, 1992:

	Union	*Nonunion*
Medical care	94	68
Dental care	58	31
Life insurance	87	62
Retirement benefits	87	41

In large establishments, similar differences between union and nonunion workers are found, but the differences are not as pronounced. For example, among full-time workers in large establishments in 1991, 91 percent of union workers received medical care benefits, compared with 81 percent of nonunion workers. In addition, 90 percent of union workers received retirement benefits, compared with 74 percent of nonunion workers.

Collective bargaining agreements cover about 15 percent of the U.S. labor force, but are more prevalent in larger establishments. In 1988, 19.4 percent of employees in large establishments were covered by a collective bargaining agreement, compared with 5.2 percent of employees in small establishments. Thus, the lower compensation levels associated with nonunion workers may be one explanation for lower compensation levels in small establishments.

Occupational safety and health statistics

Occupational safety and health laws in the United States impose strict standards on employers to maintain safe and healthy work places, promptly correct problems or potential problems, and keep records and report to the Federal Government on occupational injuries, illnesses, and fatalities. Included in the law is the requirement that worksites are to be inspected by government investigators. However, this is another area where small establishments are covered by fewer regulations. Establishments with 10 or fewer employees are not covered by occupational safety and health laws, meaning such employers do not have to keep records and are not subject to inspections. A small sample of these small establishments are included in a survey of safety and health statistics, and are therefore required to keep records on occupational injuries, illnesses, and fatalities during certain time periods.

In general, smaller (fewer than 50 employees) and larger (500 employees or more) establishments tend to have a lower rate of occupational injuries than do medium-sized establishments (more than 50, but fewer than 500 employees).[6] Table 3 presents the incidence rates of occupational injuries for all industries and for construction in 1992. As can be seen, injury rates were higher for medium-size establishments than for smaller or larger establishments. Industry data indicate a somewhat greater incidence of occupational injuries among smaller establishments in construction, an industry dominated by small establishments. (As noted earlier, more than 80 percent of employment in construction is in establishments with fewer than 100 workers.)

A note on the self-employed

Few data are available on characteristics of individuals who operate their own businesses. Data from the CPS indicate that approximately 10.3 million people in the United States were in business for themselves in 1993. The number of people who are self-employed, as well as the percent of all workers who are self-employed, has continued to rise over the past several years. In addition, the number of women who are self-employed has risen steadily; in 1993, women made up about one third of the self-employed.

Self-employed individuals tend to be older than wage and salary workers; the median age

Table 3. **Injury incidence rates of workers in all industries and in construction, by size of establishment, private sector, 1992**

Number of employees	Rate of injuries	
	All industries	Construction industries
Small establishments:		
1–19	4.3	9.8
20–49	8.3	15.9
Medium-sized establishments:		
50–99	10.0	16.4
100–249	11.1	14.4
250–499	9.7	12.1
Large establishments:		
500–999	8.6	10.5
1,000–2,499	8.5	6.6
2,500 or more	8.4	2.5

NOTE: Data refer to incidence of injuries per 100 full-time workers.

for self-employed individuals is about 44 years as opposed to 37 years for wage and salary workers. In addition, the rate of self-employment (self-employed divided by all workers) increases with age, and is the highest for both men and women at ages 65 and older.

Self-employed persons work slightly more hours per week, on average, than their wage and salary counterparts. For example, self-employed men in nonagricultural industries worked an average of 43.1 hours per week in 1993, compared with 42.1 hours per week for men working in a wage or salaried position.

The longer hours for self-employed individuals do not necessarily translate into additional earnings, however. According to a recent article in the *Review*, a small percentage of the self-employed reported negative earnings—a loss—during 1990.[7] Overall, the comparison of earnings between the self-employed and wage and salary workers varied widely depending upon gender and amount of time spent on the job.

More data needed

Despite the fact that a wide variety of data are available about the U.S. labor force, there is surprisingly little information by size of establishment, and specifically for small establishments. There is very little demographic information on workers in small establishments, and the data that do exist must be used cautiously, based on the fact that establishment size is self-reported by a household survey respondent. To draw any broad conclusions about the state of the labor force in small establishments, more data are needed.

Nonetheless, the data available reveal a number of differences among employees in small and large establishments, most notably in the composition and extent of compensation. Despite policies and laws that encourage certain compensation practices among small establishments, workers in small establishments, on average, are receiving less generous compensation packages than are their counterparts in large establishments. It appears, however, that the differences in compensation may not be influenced solely by establishment size, but may be the result of the composition of the labor force in these establishments—certain types of industries and occupations and a lower proportion of unionization than found in large establishments. More extensive research is needed to assess the effect of each of these factors on small establishments. □

Footnotes

[1] *Standard Industrial Classification Manual, 1987* (U.S. Office of Management and Budget, 1987), pp. 12.

[2] Data on employment by establishment size and industry are from the U.S. Department of Labor, Bureau of Labor Statistics, Office of Employment and Unemployment Statistics, 1992.

[3] Data on occupation, demographic characteristics, hours or work, and union status of the labor force are derived from the Current Population Survey. Tabulations were made by the U.S. Small Business Administration. See *Handbook of Small Business Data* (U.S. Small Business Administration, Office of Advocacy, 1994).

The 1987–88 data are the most recent available by establishment size. Recent CPS data are available, but they are not tabulated by establishment size. Data obtained from self reports of establishment size could not be confirmed.

[4] See *Employment Cost Indexes and Levels, 1975–93*, Bulletin 2434 (Bureau of Labor Statistics, September 1993).

[5] Data on the incidence and characteristics of employee benefits are from *Employee Benefits in Medium and Large Private Establishments, 1991*, Bulletin 2422 (Bureau of Labor Statistics, May 1993) and *Employee Benefits in Small Private Establishments, 1992*, Bulletin 2441 (Bureau of Labor Statistics, May 1994).

[6] See *Workplace Injuries and Illnesses in 1992*, USDL release 93–553 (U.S. Department of Labor), Dec. 15, 1993.

[7] See Theresa J. Devine, "Characteristics of self-employed women in the United States," *Monthly Labor Review*, March 1994, pp. 20–34.