





ARIZONA DEPARTMENT OF COMMERCE  
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# THE NUMBER OF BUSINESSES IN ARIZONA

July 2006

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## JULY 2006

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## SUMMARY

The determination of the number of businesses operating in Arizona is not a straightforward proposition due to data deficiencies and definitional issues. The best data — from the U.S. Census Bureau — are more than two years old. The Census Bureau data are divided into two series: businesses with employees and nonemployer businesses. Each series is based on administrative records. While neither series is affected by sampling error, both are subject to nonsampling error. Certain industries are excluded from each series.

Other than the omission of businesses in certain industries (particularly farming), the Census Bureau count of the number of businesses with employees likely is reasonably accurate. In 2003, Arizona had 97,758 firms that had employees at some time during the year. The figure likely has grown to a little more than 100,000 in 2006.

The identification of nonemployer businesses largely is based on self-employment income reported to the Internal Revenue Service. Since not everyone reporting self-employment income operates a business, the Census Bureau must make a number of assumptions in deriving its estimate of the number of businesses without employees. This figure is far greater than that of businesses with employees. The Census Bureau estimated that 316,351 nonemployer businesses were operating in Arizona in 2003. The 2006 figure likely exceeds 350,000.

Adding the figures of the number of employer and nonemployer businesses together, the total number of businesses operating in Arizona during 2003 was 414,109 (see the first table on the next page). As a share of the national total, the number of businesses in Arizona is less than the state's number of employees and number of residents.

The number of active businesses in Arizona has increased in each recent year, with the annual rate of growth related to the economic cycle. The percentage increase in the number of nonemployer businesses has been greater than that of employers.

By sector, the greatest numbers of businesses in Arizona in 2003 were in the professional, scientific and technical services; "other" services; and real estate and rental and leasing sectors. Nonemployer businesses dominated in some sectors, including arts, entertainment and recreation and real estate and rental and leasing. In contrast, most businesses in the accommodation and food services sector were employers.

More than half of the businesses in Arizona with employees in 2003 were very small, employing fewer than five. Less than 3 percent employed 500 or more. Including businesses without employees, the figures were even more extreme, with 90 percent of businesses having fewer than five employees and less than 1 percent having at least 500.

The U.S. Small Business Administration's definition of a small business — fewer than 500 employees — includes nearly all businesses. Yet, close to half of the total employment in Arizona in 2003 was at the less than 1 percent of businesses with at least 500 employees (see the second table on the next page). Employment growth between 1993 and 2003 was greater — both numerically and on a percentage basis — at the less than 1 percent of businesses with at least 500 employees than at all other businesses combined.

The numbers of businesses by county are not available. Statistics are generated on the number of establishments. An establishment is a single physical location at which business is conducted. Some firms, such as a grocery store chain, consist of multiple establishments. More than 60 percent of the state's establishments in 2003 were located in Maricopa County.

Non-Hispanic whites owned the vast majority of businesses in Arizona according to preliminary data from the 2002 Survey of Business Owners conducted by the Census Bureau. A much greater number of firms were owned by males than females.

## ESTIMATED NUMBER OF BUSINESSES IN ARIZONA, 2003 AND CHANGE FROM 1997

|                                        | 2003    | Change from 1997 to 2003 |         |
|----------------------------------------|---------|--------------------------|---------|
|                                        |         | Number                   | Percent |
| Number of Businesses with Employees    | 97,758  | 8,581                    | 10%     |
| Number of Businesses without Employees | 316,351 | 75,426                   | 31      |
| Total Number of Businesses             | 414,109 | 84,007                   | 25      |

### Limitations:

- Certain types of economic activities, such as crop and animal production, are not included in the number of businesses.
- The estimated number of businesses — both with and without employees — are derived from administrative records and are subject to nonsampling error.
- The number of businesses with employees includes businesses that had employees during only part of the year.
- The number of nonemployer businesses is particularly difficult to determine — see page 5 for an explanation of how this estimate was derived.
- According to the Census Bureau, most nonemployers are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner's primary source of income. For example, an individual self employed part time or seasonally who does not have a company name, does not advertise, and is employed full time as a wage and salary worker for another company is included in the number of businesses without employees.
- Data for 2004 will not be released until early 2007.

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

## ESTIMATED NUMBER OF BUSINESSES IN ARIZONA BY EMPLOYEE SIZE, 2003

| Number of Employees* | Businesses |       | Employment** |       |
|----------------------|------------|-------|--------------|-------|
|                      | Number     | Share | Number       | Share |
| None                 | 330,760    | 79.9% | 330,760      | 14.2% |
| 1 to 4               | 42,360     | 10.2  | 89,411       | 3.8   |
| 5 to 9               | 16,234     | 3.9   | 106,741      | 4.6   |
| 10 to 19             | 10,420     | 2.5   | 138,456      | 5.9   |
| 20 to 99             | 9,167      | 2.2   | 335,729      | 14.4  |
| 100 to 499           | 2,428      | 0.6   | 288,469      | 12.4  |
| 500 or more          | 2,740      | 0.7   | 1,039,989    | 44.6  |
| TOTAL                | 414,109    | 100.0 | 2,329,555    | 100.0 |

\* Employment size is based on the national total of the entire enterprise, as of mid-March.

\*\* Wage and salary employment of those businesses with employees plus the number of businesses without employment.

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

## DATA SOURCES

The U.S. Census Bureau is the pre-eminent source of data on businesses in the United States. The information provided in the body of this report comes from the Census Bureau. Data from other sources are examined in the appendix.

### U.S. Census Bureau

Businesses with employees are counted by the Census Bureau through the Statistics of U.S. Businesses (SUSB) program, developed in cooperation with the Office of Advocacy of the U.S. Small Business Administration (SBA). The number of businesses without employees is *estimated* in a related program, Nonemployer Statistics.

According to the Census Bureau, an “establishment” is a single physical location at which business is conducted. An “enterprise” is a business organization consisting of one or more establishments (located in the United States) under common ownership or control. For example, a grocery store chain is one enterprise with multiple establishments. A “firm” is that part of an enterprise tabulated in a particular geographic area, such as state. An enterprise with establishments in more than one state is counted as a firm in each state, but is counted as just one firm in national tabulations.

### Statistics of U.S. Businesses

The SUSB program provides annual statistics (back to the late 1980s) derived from the Census Bureau’s Business Register, a file of all known single-establishment and multiestablishment companies. Statistics include the number of firms, number of establishments, employment (as of mid-March), and annual payroll.

Information in the Business Register is derived from various Census Bureau programs, such as the Annual Survey of Manufacturers, and from administrative records of the Internal Revenue Service (IRS), Social Security Administration, and the U.S. Bureau of Labor Statistics. The annual Company Organization Survey provides individual establishment data for multiestablishment companies. The effort involved in maintaining and updating company data for the entire nation leads to a substantial lag in releasing the data. The latest statistics are for 2003, which were released in early 2006.

Most types of economic activity are included in the SUSB statistics. Exceptions include agricultural production, rail transportation, pension funds, trusts, private households, the National Postal Service, and public administration (most government employees).

Other familiar Census Bureau products, including *County Business Patterns* (which has been done annually for decades) and its companion product *Zip Business Patterns*, are derived from the same Business Register. However, these products present data only by establishment.

Similarly, the SUSB program provides detail on the change in the number of establishments each year, but not detail on the change in the number of firms. Establishment births and deaths are recorded, as are the number of establishment expansions and contractions, as measured by the number of employees.

In addition to the number of establishments and firms, the Census Bureau presents statistics by employment size of the entire enterprise — not by its employment size in a particular geographic area. Enterprises with no employment in mid-March but with employment at other times of the year are included in the SUSB program, with employment shown as zero.

The data from the SUSB program are not subject to sampling error. However, various sources of nonsampling error are present, particularly the inability to identify all businesses.

As with all federal government programs, data that might disclose the activity of an individual employer are withheld. The number of establishments, however, is not affected by this disclosure restriction.

### **Nonemployer Statistics**

Each year, the Census Bureau creates a list of nonemployer businesses in conjunction with its updating of its Business Register. The primary initial source of information is business income tax returns filed with the IRS, mostly Schedule C of form 1040 filed by sole proprietorships but also Schedule B of Form 1065 filed by partnerships.

Most types of economic activity are included in the Nonemployer Statistics; exceptions are crop and animal production, investment funds, and management of companies. Tax-exempt businesses also are excluded. According to the Census Bureau, most nonemployers are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner's primary source of income.

The Census Bureau warns that various limitations must be recognized when analyzing nonemployer data. First, since not all individuals reporting self-employment income operate independent businesses, the Census Bureau edits these records (based on incomplete information). In order to remove establishments that are not true nonemployers, those with less than \$1,000 in receipts are excluded, except in the construction sector. Those with a large volume of receipts (the cutoff figure varies by industry) also are excluded under the assumption that a company with no employees could not achieve this level of business.

Many of those reporting self-employment income are contract employees. Contract employment is particularly common among those selling real estate or securities, many of whom work for large companies. Others reporting self-employment income are employed full time as a wage or salary employee, but occasionally take on work for others in their spare time. Many of these people do not have a company name and do not advertise their services.

Another limitation is that the address of the business in the Census Bureau database — the mailing address of the owner — may not match that of the actual location at which business is conducted. Some sole proprietors work out of their home, some have another place of business, and others are mobile (such as those selling ice cream from a truck). Another consideration is a business with no payroll, but that uses leased or contract employees. Unless the receipts of such a business surpass the Census Bureau threshold, it is included in the nonemployer statistics.

The data from the nonemployer program are not subject to sampling error. However, various sources of nonsampling error are present, including the inability to identify all businesses. According to the Census Bureau, the primary source of nonsampling error is that employer establishments are improperly included in the nonemployer database.

The Census Bureau withholds nonemployer data, including the number of establishments, if the number of establishments does not equal at least three by state and at least 10 by county and metropolitan area.

### **Survey of Business Owners**

Associated with the 2002 Economic Census is the Survey of Business Owners (SBO). This source is used in the "Number of Women- and Minority-Owned Businesses in Arizona" section of this report.

Data from the SBO are derived from a survey of business owners. Thus, these data are subject to sampling errors as well as nonsampling errors. Certain types of economic activities are excluded, with the list of exclusions somewhat different both from that of the SUSB and the Nonemployer Statistics programs (see Table 1). As with other federal programs, data are subject to suppression.

Business ownership is defined as 51 percent or more of the stock or equity in a business. It is categorized according to three dimensions: (1) gender: male, female, or owned equally by males and females; (2) ethnicity: Hispanic/Latino or not; and (3) race: White, Black/African American, American Indian or Alaska Native, Asian, or Native Hawaiian or Other Pacific Islander. One firm could be tabulated in more than one racial group if the owner reported more than one race or if multiple owners are of different races. While preliminary data are available for each of these categories, final figures have not yet been released for the American Indian or Alaska Native, and Native Hawaiian or Other Pacific Islander groups.

### Other Programs

As indicated above, the Census Bureau uses information from a variety of programs in creating its data on employer and nonemployer businesses. The Economic Census conducted every five years is one of the inputs. The Economic Census has not been used directly in this report due to various limitations, particularly its reporting by establishment rather than by firm and the lack of even establishment data for several sectors by county and metropolitan area.

In order to better understand the nature of people reporting self-employment income, an analysis was made of the 2000 census public use microdata sample (PUMS). The decennial census asked individuals who received the “long form” of the census questionnaire to report their income by type (e.g. wage and salary, self employment, retirement). A variety of other useful data are collected on the long form, such as whether the individual considered himself to be self employed or an employee.

**TABLE 1  
ECONOMIC ACTIVITIES EXCLUDED FROM CENSUS BUREAU STATISTICS**

| <b>NAICS</b>                                         | <b>Statistics of<br/>U.S.<br/>Businesses</b> | <b>Non-<br/>employer<br/>Statistics</b> | <b>Survey of<br/>Business<br/>Owners</b> |
|------------------------------------------------------|----------------------------------------------|-----------------------------------------|------------------------------------------|
| Crop Production                                      | x                                            | x                                       | x                                        |
| Animal Production                                    | x                                            | x                                       | x                                        |
| Scheduled Air Transportation                         |                                              |                                         | part                                     |
| Rail Transportation                                  | x                                            |                                         | x                                        |
| Postal Service                                       | x                                            |                                         | x                                        |
| Investment Funds, Trusts & Other Financial Vehicles  | part                                         | x                                       | most                                     |
| Management of Companies                              |                                              | x                                       |                                          |
| Religious, Civic, Professional & Other Organizations |                                              |                                         | x                                        |
| Private Households                                   | x                                            |                                         | x                                        |
| Public Administration                                | x                                            |                                         | x                                        |

Source: U.S. Department of Commerce, Census Bureau.

## **Other Data Sources**

Various data from sources other than the Census Bureau were examined for this report and are summarized in the appendix. Some of these data were included in earlier reports on the number of businesses in Arizona.

### **U.S. Bureau of Economic Analysis: Proprietor Employment**

The BEA estimates the employment of proprietors (sole proprietors and partners) by state. Internal Revenue Service data are the basis for the estimates of the number of proprietors (expressed as the number of jobs, not the number of people). The BEA estimate of the number of proprietors is not a good indication of the number of nonemployer businesses. The editing conducted by the Census Bureau results in a much more accurate estimate of the number of nonemployer businesses.

### **Internal Revenue Service**

The IRS produces summary statistics by state by tax year, including the number and earnings of those reporting “business or profession net income.” These figures are based on the number of tax returns, not on the number of individuals. (On a joint return, the business or profession net income may derive from the activities of one or both of the filers.) Like the BEA proprietor data, this is not a good indication of the number of businesses.

### **Arizona Corporation Commission**

The Arizona Corporation Commission (ACC) maintains a historical record of the number of corporations registered in Arizona. Their data include various types of corporations, including business corporations, nonprofit corporations, professional corporations (e.g. doctors), limited liability corporations (LLCs), and miscellaneous other types of corporations, but do not include unincorporated sole proprietorships or partnerships.

For the purpose of counting the number of businesses in Arizona, the ACC data have significant limitations. First, a corporation registered in Arizona may not be conducting business in Arizona at any point in time. Thus, the number of active corporations is overstated. Second, while the ACC continually updates their records for newly registered corporations, the removal of no-longer-registered corporations is done only periodically. Thus, the time series of data is erratic, with the number of corporations overstated most of the time. Third, many of those registering as LLCs are not operating independent businesses.

The number of LLCs is increasing rapidly, as many sole proprietors incorporate under this option. The advantage to an individual of incorporating as a LLC is to provide the limited liability features of a corporation — the protection of personal assets — while maintaining the tax efficiencies and operational flexibility of a noncorporation. Since first being an option in 1992, LLCs have become much more popular among sole proprietors than the previous choice of “S” corporations.

In some types of businesses, however — such as real estate sales offices and sales of financial securities — most of those who “work” for a company are not on the payroll, instead being contract employees. Many of these individuals working under contract are registered as an LLC, but are not operating an independent business.

Prior efforts to count the number of businesses in Arizona combined ACC counts with counts of the number filing self-employment or partnership income with the IRS. Thus, in addition to the ACC figures overstating the number of active business corporations in Arizona, a

count of those filing Schedule C of Form 1040 or Schedule B of Form 1065 grossly overstates the number of nonemployer businesses. Given the amount of work done by the Census Bureau, their data are far superior.

### **U.S. Bureau of Labor Statistics**

Since the latest Census Bureau information is for 2003, data from the Quarterly Census of Employment and Wages produced by the Bureau of Labor Statistics at the U.S. Department of Labor were examined in order to provide an indication of the rate of growth in the number of businesses by county. These data are released quarterly, approximately six-to-nine months after the end of a quarter. Only employer businesses are included. The BLS attempts to report the number of establishments. However, since no requirement exists in Arizona for a multiestablishment company to report employment by establishment, the BLS data are a mix of establishment and firm data.

## NUMBER OF BUSINESSES IN ARIZONA

In 2003, the Census Bureau reported 97,758 employer firms in Arizona. Given the rate of growth in number shown in Table 2, the state likely has a little more than 100,000 businesses with employees in 2006. With data available back to 1988, it is possible to determine that increases in the number of employer businesses is related to the economic cycle, with gains much greater during the recovery and middle phase of the expansion following the 1990-91 recession (the 1992-through-1997 period) than in the later years of the expansion. The gain in the number of businesses bottomed out in the recessionary year of 2001, but remained subpar during the weak economy of 2002 and 2003.

The Census Bureau reported 316,351 nonemployer establishments in Arizona in 2003, a figure 3.2 times as high as the number of firms with employment. With data available back only to 1997, the relationship between the number of nonemployer establishments and the economic cycle cannot be determined. The number of nonemployer establishments increased substantially between 1997 and 2003 (see Table 3), as the increase was much faster, even on a percentage basis, than of the number of employers. Based on these growth rates, more than 350,000 nonemployer establishments probably exist in Arizona in 2006.

For this report, it has been assumed that each nonemployer establishment is equivalent to one business. Thus, the total number of businesses — the sum of the number of businesses with employees and the number of nonemployer establishments — in Arizona in 2003 was 414,109. A recent history of the number of businesses in Arizona is provided in Table 4 and in Chart 1.

**TABLE 2  
NUMBER OF BUSINESSES WITH EMPLOYEES IN ARIZONA, 1998 THROUGH 2003**

|      | Number | Number<br>Change | Percent<br>Change |
|------|--------|------------------|-------------------|
| 1988 | 70,887 |                  |                   |
| 1989 | 71,084 | 197              | 0.3%              |
| 1990 | 71,586 | 502              | 0.7               |
| 1991 | 72,271 | 685              | 1.0               |
| 1992 | 74,600 | 2,329            | 3.2               |
| 1993 | 77,280 | 2,680            | 3.6               |
| 1994 | 80,480 | 3,200            | 4.1               |
| 1995 | 82,699 | 2,219            | 2.8               |
| 1996 | 86,709 | 4,010            | 4.8               |
| 1997 | 89,177 | 2,468            | 2.8               |
| 1998 | 90,374 | 1,197            | 1.3               |
| 1999 | 91,640 | 1,266            | 1.4               |
| 2000 | 93,004 | 1,364            | 1.5               |
| 2001 | 93,947 | 943              | 1.0               |
| 2002 | 95,908 | 1,961            | 2.1               |
| 2003 | 97,758 | 1,850            | 1.9               |

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses.

Arizona's count of the number of businesses in 2003 made up 1.70 percent of the national count of 24.4 million. The number of nonemployer businesses and the number of employer businesses in Arizona each was 1.70 percent of the national figure. In contrast, the number of people living in Arizona made up 1.92 percent of the national total and Arizona's employment share was 1.76 percent.

**TABLE 3  
NUMBER OF ESTABLISHMENTS WITHOUT EMPLOYEES IN ARIZONA,  
1997 THROUGH 2003**

|      | <b>Number</b> | <b>Number<br/>Change</b> | <b>Percent<br/>Change</b> |
|------|---------------|--------------------------|---------------------------|
| 1997 | 240,925       |                          |                           |
| 1998 | 248,462       | 7,537                    | 3.1%                      |
| 1999 | 260,743       | 12,281                   | 4.9                       |
| 2000 | 268,969       | 8,226                    | 3.2                       |
| 2001 | 276,858       | 7,889                    | 2.9                       |
| 2002 | 289,300       | 12,442                   | 4.5                       |
| 2003 | 316,351       | 27,051                   | 9.4                       |

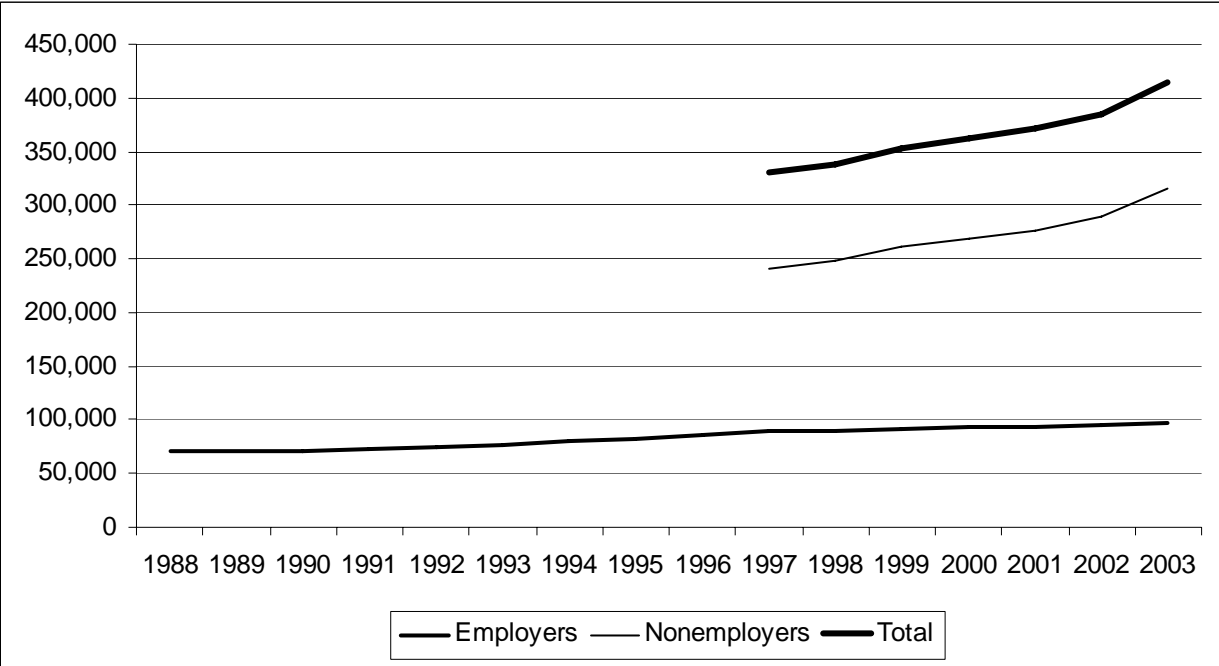
Source: U.S. Department of Commerce, Census Bureau, Nonemployer Statistics.

**TABLE 4  
TOTAL NUMBER OF BUSINESSES IN ARIZONA, 1997 THROUGH 2003**

|      | <b>Employer</b> | <b>Non-<br/>employer</b> | <b>Total</b> | <b>Number<br/>Change</b> | <b>Percent<br/>Change</b> |
|------|-----------------|--------------------------|--------------|--------------------------|---------------------------|
| 1997 | 89,177          | 240,925                  | 330,102      |                          |                           |
| 1998 | 90,374          | 248,462                  | 338,836      | 8,734                    | 2.6%                      |
| 1999 | 91,640          | 260,743                  | 352,383      | 13,547                   | 4.0                       |
| 2000 | 93,004          | 268,969                  | 361,973      | 9,590                    | 2.7                       |
| 2001 | 93,947          | 276,858                  | 370,805      | 8,832                    | 2.4                       |
| 2002 | 95,908          | 289,300                  | 385,208      | 14,403                   | 3.9                       |
| 2003 | 97,758          | 316,351                  | 414,109      | 28,901                   | 7.5                       |

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

**CHART 1**  
**NUMBER OF BUSINESSES IN ARIZONA, 1988 THROUGH 2003**



Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

## NUMBER OF BUSINESSES IN ARIZONA BY SECTOR

The Statistics of U.S. Businesses and Nonemployer Statistics programs each present data by sector and industry. However, the data prior to 1998 were categorized by the Standard Industrial Classification (SIC), data from 1998 through 2002 were classified by the 1997 version of the North American Industry Classification System (NAICS), and data for 2003 were categorized by the 2002 version of NAICS. Thus, it is not possible to directly compare the number of businesses by sector in 2003 to those in earlier years.

All activity at each establishment is assigned to one industry. In the SUSB program, the Census Bureau assigns the detailed industry code based on various information in its database. In contrast, for nonemployer businesses the industry is self-assigned by tax filers using a shortened list of industries.

The greatest number of firms with employees in 2003 was in the construction industry, with a barely smaller number in the professional, scientific and technical services sector (see Table 5). Each of these sectors accounted for more than 13 percent of all employer businesses. The retail trade and health care and social assistance sectors each also consisted of more than 10,000 businesses with employees, or more than 10 percent of the total.

**TABLE 5  
NUMBER OF BUSINESSES IN ARIZONA BY SECTOR, 2003**

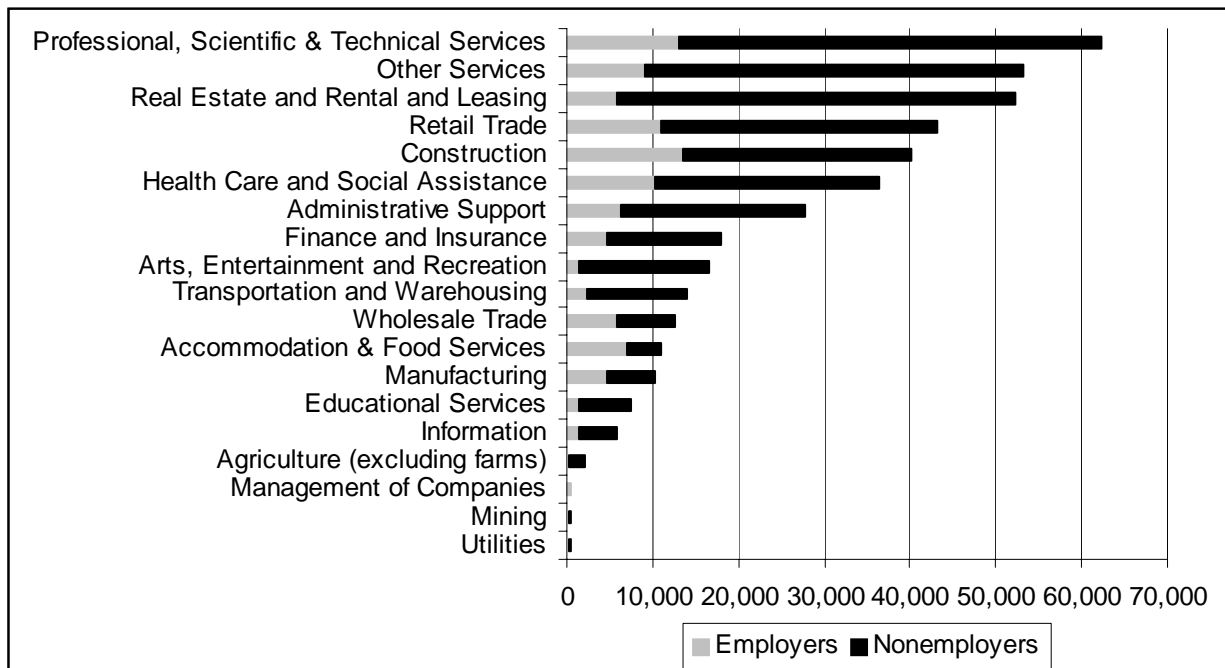
|                                                 | Employer | Non-<br>employer | Total   | Employer<br>Share |
|-------------------------------------------------|----------|------------------|---------|-------------------|
| TOTAL                                           | 97,758   | 316,351          | 414,109 | 23.6%             |
| Agriculture (excluding farms)                   | 220      | 1,867            | 2,087   | 10.5              |
| Mining                                          | 159      | 312              | 471     | 33.8              |
| Utilities                                       | 177      | 265              | 442     | 40.0              |
| Construction                                    | 13,422   | 26,801           | 40,223  | 33.4              |
| Manufacturing                                   | 4,587    | 5,699            | 10,286  | 44.6              |
| Wholesale Trade                                 | 5,760    | 6,852            | 12,612  | 45.7              |
| Retail Trade                                    | 10,857   | 32,358           | 43,215  | 25.1              |
| Transportation and Warehousing                  | 2,410    | 11,672           | 14,082  | 17.1              |
| Information                                     | 1,310    | 4,564            | 5,874   | 22.3              |
| Finance and Insurance                           | 4,772    | 13,305           | 18,077  | 26.4              |
| Real Estate and Rental and Leasing              | 5,826    | 46,455           | 52,281  | 11.1              |
| Professional, Scientific and Technical Services | 13,182   | 49,108           | 62,290  | 21.2              |
| Management of Companies                         | 565      | 0                | 565     | 100.0             |
| Administrative Support                          | 6,258    | 21,553           | 27,811  | 22.5              |
| Educational Services                            | 1,323    | 6,258            | 7,581   | 17.5              |
| Health Care and Social Assistance               | 10,219   | 26,297           | 36,516  | 28.0              |
| Arts, Entertainment and Recreation              | 1,402    | 15,088           | 16,490  | 8.5               |
| Accommodation and Food Services                 | 7,027    | 3,932            | 10,959  | 64.1              |
| Other Services                                  | 9,204    | 43,965           | 53,169  | 17.3              |
| Unclassified                                    | 509      | 0                | 509     | 100.0             |

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

Among nonemployer establishments, the greatest number were classified in the professional, scientific and technical services sector, followed by the real estate and rental and leasing sector and the other services sector. Combining the employer and nonemployer figures, the largest numbers of Arizona businesses were in the professional, scientific and technical services sector, followed by the other services sector and the real estate and rental and leasing sector (see Chart 2).

By sector, the number of employer businesses as a proportion of the total varies widely. Nearly two-thirds of the businesses offering accommodation or food services had employees in 2003, while only approximately one-in-10 of those in the arts, entertainment and recreation sector and the real estate and rental and leasing sector had employees.

**CHART 2  
NUMBER OF BUSINESSES IN ARIZONA BY SECTOR, 2003**



Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

## NUMBER OF BUSINESSES IN ARIZONA BY EMPLOYMENT SIZE

Among those businesses classified as being employers in 2003, most were quite small in terms of their number of employees. In Arizona, 58 percent had fewer than five employees and nearly three-fourths had fewer than 10 employees, as seen in Table 6. Comparable shares nationally were 61 and 79 percent.

Just 5 percent of the employer businesses had more than 100 employees in Arizona; the national share was only 2 percent. Despite the small number of employers of at least 100, these larger firms were responsible for nearly two-thirds of Arizona's wage and salary employment and almost as large a share of the nation's total. According to Arizona statute, a "small business means a concern, including its affiliates, which is independently owned and operated, which is not dominant in its field and which employs fewer than 100 full-time employees or which had gross annual receipts of less than \$4 million in its last fiscal year."

The less than 3 percent of businesses in Arizona with at least 500 employees accounted for more than half of the wage and salary employment (see Chart 3). Nationally, only a fraction of 1 percent of firms employed at least 500 workers, but these businesses employed nearly half

**TABLE 6  
NUMBER OF EMPLOYER BUSINESSES AND ASSOCIATED EMPLOYMENT  
BY EMPLOYEE SIZE, 2003**

| ARIZONA                 |               |              |                  |              |
|-------------------------|---------------|--------------|------------------|--------------|
| Number of<br>Employees* | Businesses    |              | Employment       |              |
|                         | Number        | Share        | Number           | Share        |
| None**                  | 14,409        | 14.7%        | 0                | 0.0%         |
| 1 to 4                  | 42,360        | 43.3         | 89,411           | 4.5          |
| 5 to 9                  | 16,234        | 16.6         | 106,741          | 5.3          |
| 10 to 19                | 10,420        | 10.7         | 138,456          | 6.9          |
| 20 to 99                | 9,167         | 9.4          | 335,729          | 16.8         |
| 100 to 499              | 2,428         | 2.5          | 288,469          | 14.4         |
| 500 or more             | 2,740         | 2.8          | 1,039,989        | 52.0         |
| <b>TOTAL</b>            | <b>97,758</b> | <b>100.0</b> | <b>1,998,795</b> | <b>100.0</b> |

| UNITED STATES           |                  |              |                    |              |
|-------------------------|------------------|--------------|--------------------|--------------|
| Number of<br>Employees* | Businesses       |              | Employment         |              |
|                         | Number           | Share        | Number             | Share        |
| None**                  | 770,299          | 13.3%        | 0                  | 0.0%         |
| 1 to 4                  | 2,734,133        | 47.4         | 5,768,407          | 5.1          |
| 5 to 9                  | 1,025,497        | 17.8         | 6,732,132          | 5.9          |
| 10 to 19                | 620,387          | 10.8         | 8,329,813          | 7.3          |
| 20 to 99                | 515,056          | 8.9          | 20,186,989         | 17.8         |
| 100 to 499              | 84,829           | 1.5          | 16,430,229         | 14.5         |
| 500 or more             | 16,926           | 0.3          | 55,950,473         | 49.3         |
| <b>TOTAL</b>            | <b>5,767,127</b> | <b>100.0</b> | <b>113,398,043</b> | <b>100.0</b> |

\* Employment size is based on the national total of the entire enterprise.

\*\* No employment during mid-March, but employment at other times in 2003. The owners of these businesses are not included in the employment figures.

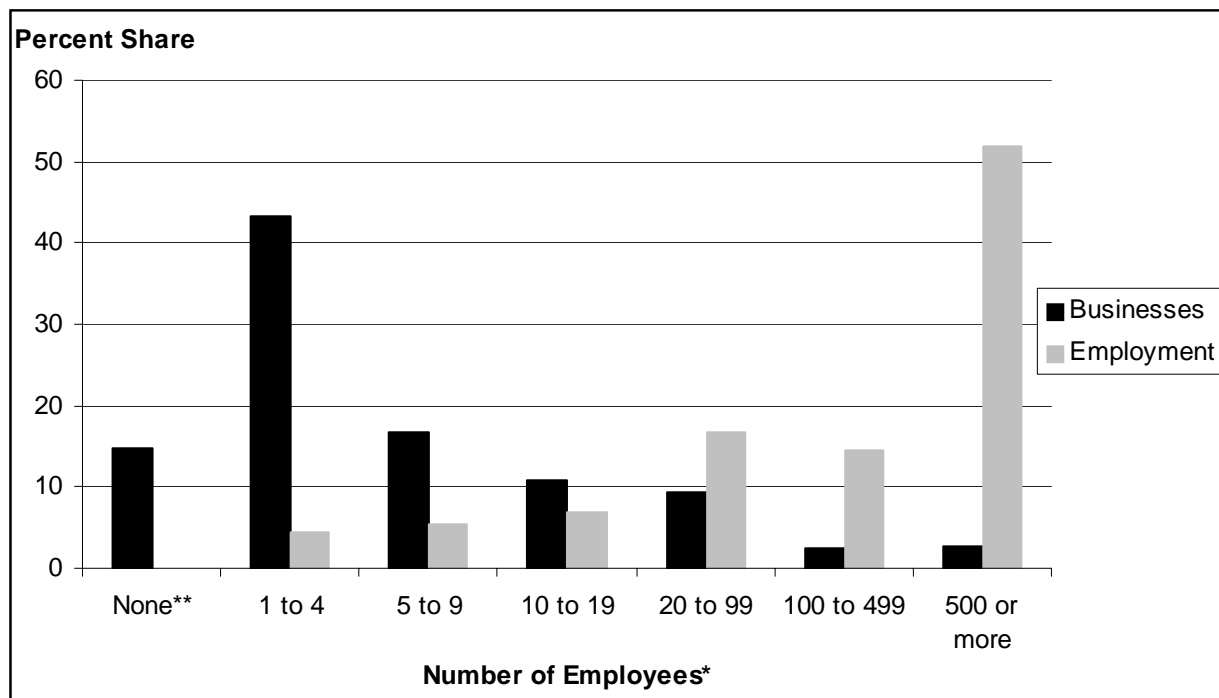
Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses.

of the nation’s wage and salary workers. According to the Small Business Act passed by Congress, a small business is “one that is independently owned and operated and which is not dominant in its field of operation.” The U.S. Small Business Administration (SBA) has established a “size standard” for each for-profit industry in order to determine the eligibility of businesses for its programs. The size standard generally uses either employment or annual receipts, based on a company’s national total. Among those industries with an employment size standard, the most common is 500 employees, though the range is from 100 to 1,500 employees. For research purposes, the SBA defines a small business as one with fewer than 500 employees.

As seen in Table 6, this definition includes the vast majority of businesses in Arizona and in the nation. Among those businesses with employees operating in Arizona, 97 percent had fewer than 500 national employees in 2003. The comparable national percentage is close to 100. Thus, it should be no surprise to hear statements such as “the nation’s economy is driven by small businesses” when nearly all businesses are classified as “small.”

Yet even this statement is not accurate, given that companies with 500 or more employees accounted for more than half of the wage and salary employment in Arizona in 2003 and nearly half nationally. Further, between 1993 and 2003 (comparable years in the economic

**CHART 3  
NUMBER OF EMPLOYER BUSINESSES AND ASSOCIATED EMPLOYMENT  
BY EMPLOYEE SIZE, ARIZONA 2003**



\* Employment size is based on the national total of the entire enterprise.

\*\* No employment during mid-March, but employment at other times in 2003. The owners of these businesses are not included in the employment figures.

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses.

cycle), employment in Arizona at businesses with more than 500 national employees rose twice as fast as at smaller companies (69.3 percent v. 34.8 percent), with the numeric change 426,000 among the large companies and 248,000 among the small. Nationally, the employment gain in large firms also was much more rapid than at small firms, accounting for more than 60 percent of the total employment change.

The preceding discussion is limited to businesses with employment at some time during 2003. In an effort to broaden this analysis to include nonemployer businesses, Table 7 provides the number of nonemployer establishments combined with the number of businesses with no employment in mid-March in the size category labeled “none.” Employment was assigned to this category by including an estimate of the number of proprietors (assuming that all nonemployer businesses are sole proprietorships).

On this basis, 80 percent of businesses in Arizona in 2003 had no employees and 90 percent had fewer than five. More than 99 percent of Arizona businesses in 2003 had fewer than 500 employees. Yet these 0.7 percent of large businesses employed nearly 45 percent of the workforce, defined as the number of wage and salary employees combined with the number of owners of nonemployer businesses.

Instead of considering nearly all businesses to be small, for research purposes it would be useful to divide businesses into small, medium and large categories. Using the size breaks reported by the SUSB program, businesses with less than 20 employees might be considered to be small, those with 20 to 99 employees to be of medium size, and those with 100 or more employees to be large. Even using this definition, and limiting the analysis to businesses with employees, 85 percent of the state’s businesses would be small, less than 10 percent would be medium sized, and only 5 percent would be large. However, small businesses would account for just 17 percent of wage and salary employment, medium-sized businesses also would employ 17 percent of these workers, and large businesses would account for 66 percent.

**TABLE 7  
NUMBER OF EMPLOYER AND NONEMPLOYER BUSINESSES  
AND ASSOCIATED EMPLOYMENT IN ARIZONA BY EMPLOYEE SIZE, 2003**

| Number of<br>Employees* | Businesses |       | Employment** |       |
|-------------------------|------------|-------|--------------|-------|
|                         | Number     | Share | Number       | Share |
| None                    | 330,760    | 79.9% | 330,760      | 14.2% |
| 1 to 4                  | 42,360     | 10.2  | 89,411       | 3.8   |
| 5 to 9                  | 16,234     | 3.9   | 106,741      | 4.6   |
| 10 to 19                | 10,420     | 2.5   | 138,456      | 5.9   |
| 20 to 99                | 9,167      | 2.2   | 335,729      | 14.4  |
| 100 to 499              | 2,428      | 0.6   | 288,469      | 12.4  |
| 500 or more             | 2,740      | 0.7   | 1,039,989    | 44.6  |
| TOTAL                   | 414,109    | 100.0 | 2,329,555    | 100.0 |

\* Employment size is based on the national total of the entire enterprise.

\*\* Wage and salary employment of those businesses with employees plus the number of businesses without employment (this figure is understated due to assuming all are sole proprietorships rather than partnerships).

Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

## NUMBER OF BUSINESSES IN ARIZONA BY COUNTY

The number of firms with employees is not available by county from the SUSB program. Instead, establishment data are available, as published in County Business Patterns. From the SUSB program, 121,533 employer establishments were identified statewide in 2003, a count 24 percent higher than the number of firms (97,758). Thus, 23,775 establishments were not independent businesses.

Nonemployer statistics also are available by county. Thus, summing the figures from these two programs results in the total number of establishments by county. The nonemployer share of the total does not vary much by county from the state total of 72 percent.

Maricopa County by far had the greatest number of establishments in 2003, accounting for 63 percent of the state total (see Table 8). Pima County had 16 percent of the establishments, with Yavapai having the most of the other 13 counties (see Chart 4) at less than 5 percent.

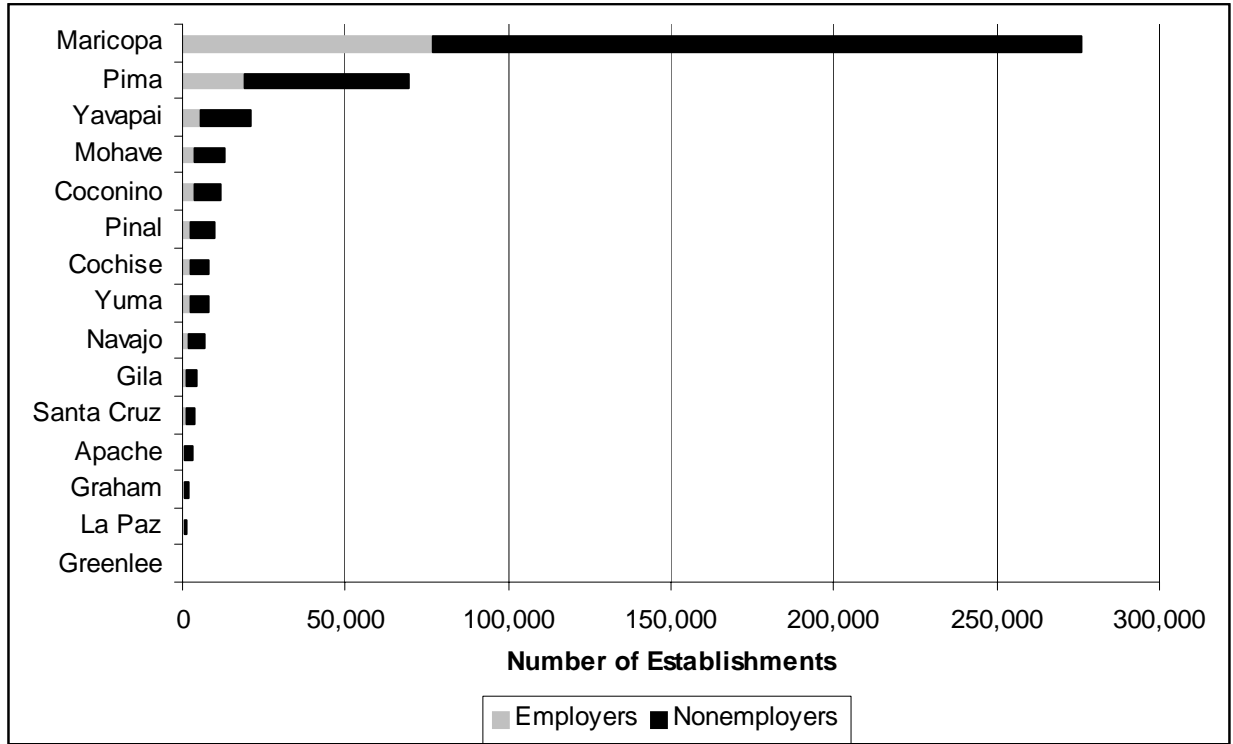
**TABLE 8  
TOTAL NUMBER OF ESTABLISHMENTS BY ARIZONA COUNTY, 2003**

|            | <b>Employers</b> | <b>Non-<br/>employers</b> | <b>Total</b> |
|------------|------------------|---------------------------|--------------|
| ARIZONA    | 121,533*         | 316,351                   | 437,884*     |
| Apache     | 525              | 2,328                     | 2,853        |
| Cochise    | 2,256            | 6,023                     | 8,279        |
| Coconino   | 3,597            | 7,842                     | 11,439       |
| Gila       | 1,086            | 3,362                     | 4,448        |
| Graham     | 502              | 1,175                     | 1,677        |
| Greenlee   | 89               | 236                       | 325          |
| La Paz     | 348              | 736                       | 1,084        |
| Maricopa   | 76,629           | 199,254                   | 275,883      |
| Mohave     | 3,801            | 9,330                     | 13,131       |
| Navajo     | 1,809            | 4,728                     | 6,537        |
| Pima       | 19,322           | 50,202                    | 69,524       |
| Pinal      | 2,298            | 7,524                     | 9,822        |
| Santa Cruz | 1,136            | 2,657                     | 3,793        |
| Yavapai    | 5,492            | 15,292                    | 20,784       |
| Yuma       | 2,588            | 5,662                     | 8,250        |

\* The state total includes a small number of establishments not allocated to any county.

Source: U.S. Department of Commerce, Census Bureau, County Business Patterns and Nonemployer Statistics.

**CHART 4**  
**TOTAL NUMBER OF ESTABLISHMENTS BY ARIZONA COUNTY, 2003**



Source: U.S. Department of Commerce, Census Bureau, Statistics of U.S. Businesses and Nonemployer Statistics.

**NUMBER OF WOMEN- AND MINORITY-OWNED BUSINESSES IN ARIZONA**

Not all of the final results of the 2002 Survey of Business Owners are yet available, so the preliminary figures on the number of firms (which are internally consistent) are presented in Table 9. Percentages of firms by ownership are shown in Chart 5.

By gender, more than half of the firms in Arizona in 2002 were owned by males, with less than a third owned by females. Relative to the nation, Arizona had a disproportionately large share of firms owned equally by males and females. The percentage female owned was marginally higher in Arizona than the national average.

By ethnicity, Hispanics owned less than 10 percent of the firms in Arizona. Hispanics owned a somewhat higher share of the businesses in Arizona than nationally.

By race, whites dominated the Arizona figures, owning 94 percent of all firms. The share owned by whites was higher in Arizona than nationally and the share owned by Native Americans was marginally higher. In contrast, both black and Asian ownership was less common in Arizona.

**TABLE 9  
TOTAL NUMBER OF FIRMS IN ARIZONA BY OWNERSHIP, 2002**

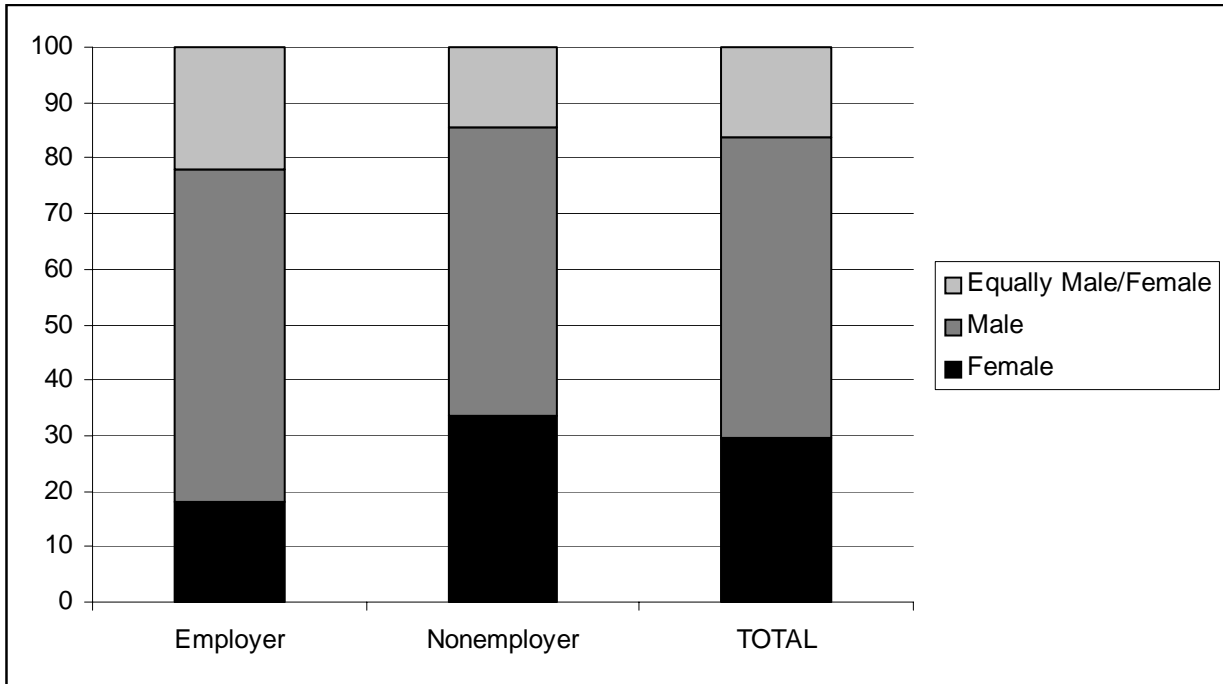
|                                               | <b>Employers</b> | <b>Non-employers</b> | <b>Total</b> |
|-----------------------------------------------|------------------|----------------------|--------------|
| TOTAL                                         | 94,642           | 286,587              | 381,229      |
| Gender:                                       |                  |                      |              |
| Female                                        | 15,729           | 94,078               | 109,807      |
| Male                                          | 52,116           | 147,438              | 199,554      |
| Equal                                         | 19,232           | 40,522               | 59,754       |
| Ethnicity:                                    |                  |                      |              |
| Hispanic                                      | 5,018            | 30,084               | 35,102       |
| Other                                         | 82,059           | 251,954              | 334,013      |
| Race:                                         |                  |                      |              |
| White                                         | 82,327           | 262,752              | 345,079      |
| Black                                         | 637              | 5,701                | 6,338        |
| Asian                                         | 3,190            | 7,033                | 10,223       |
| Native Hawaiian & Other Pacific Islander      | 66               | 282                  | 348          |
| Native American and Alaska Native             | 480              | 6,134                | 6,614        |
| Publicly Held, Foreign Owned & Not For Profit | 7,418            | 2,658                | 10,076       |

Note: Figures are preliminary. The number in the bottom line should be added to the figures by gender, ethnicity and race to approximate the total.

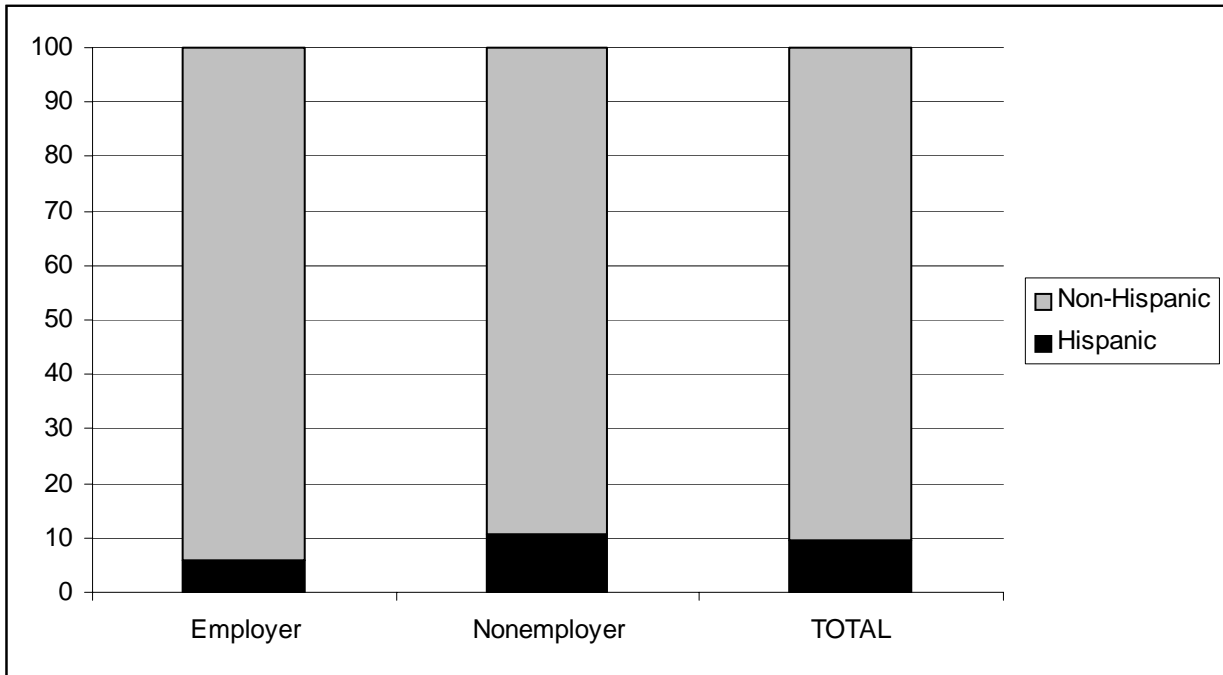
Source: U.S. Department of Commerce, Census Bureau, Survey of Business Owners.

**CHART 5  
PERCENTAGE OF FIRMS IN ARIZONA BY OWNERSHIP, 2002**

**GENDER**

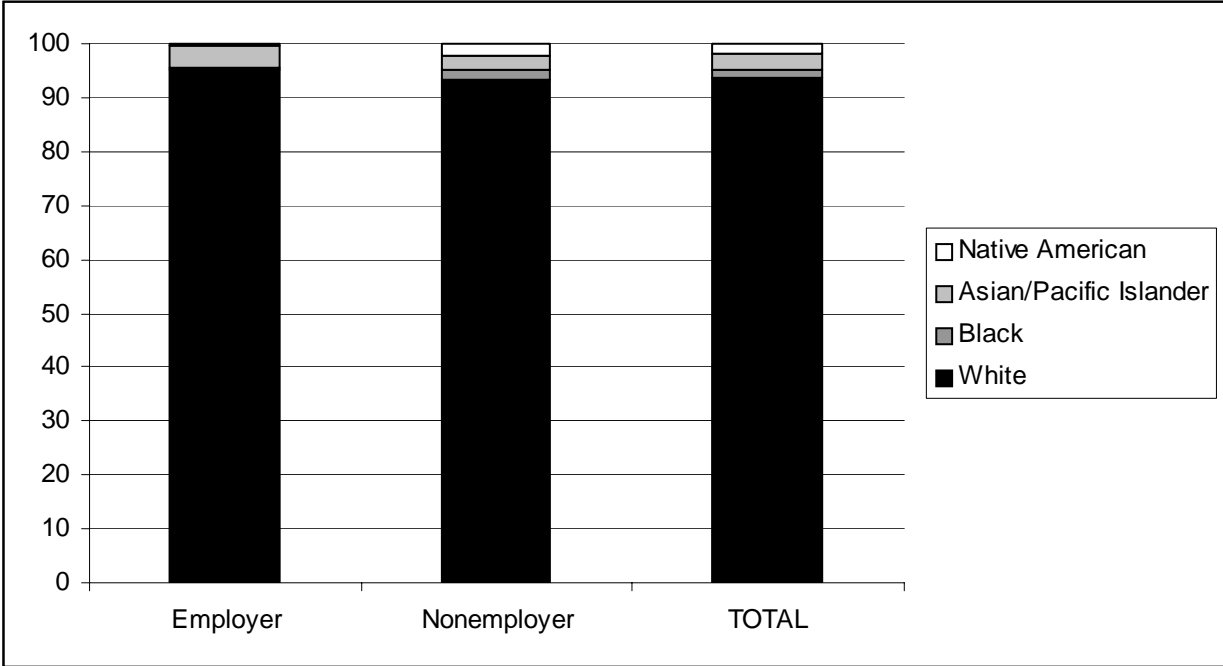


**ETHNICITY**



(continued)

**RACE**



Source: U.S. Department of Commerce, Census Bureau, Survey of Business Owners.

## APPENDIX: INFORMATION FROM OTHER DATA SOURCES

1. **U.S. Department of Commerce, Bureau of Economic Analysis and Census Bureau:** The number of proprietors and decennial census data.

The Bureau of Economic Analysis (BEA) publishes employment estimates annually, for wage and salary employment and for proprietors' employment. Their estimate of the number of proprietors (525,432 in Arizona in 2003) greatly exceeds the number of nonemployer businesses counted by the Census Bureau (316,351). The number of nonemployer businesses counted by the Census Bureau in 2003 was 60 percent of the BEA estimate of the number of proprietors in 2003, up a bit from the roughly 58 percent share of the prior six years. The Arizona share has been consistently a little lower than the national share.

Various reasons exist for the differential in these two numbers:

- The BEA attempts to estimate the total number of proprietors while certain industries are not included in the count of nonemployer businesses.
- The Census Bureau counts businesses while the BEA estimates jobs. For example, a two-person partnership is counted as one business but two jobs.
- Many people, including most real estate agents, work as contract employees. Thus, though they report self-employment income, they do not operate a business. A comparison of BEA employment data by sector indicates that the proprietor share of total employment is highest in the real estate sector at 70 percent. Other sectors with a high proportion of proprietors include arts, entertainment and recreation (particularly performing arts and sports, where individuals are contract employees rather than business operators), farm, and professional, scientific and technical services. Many in the securities industry also work under contract.
- The Census Bureau substantially edits the self-employment income data reported to the IRS to limit the count to the number appearing to run a true business without employees. Many people who either are retired or work full time at a wage and salary job report small amounts of self-employment income that reflect an occasional brief "moonlighting" project. Examples include professionals who do an occasional consulting job for someone other than their employer or a construction worker who occasionally takes on a project of his own on evenings or the weekend.

An analysis of 2000 census data for Arizona using the public use microdata sample verifies that many people who report self-employment income report small amounts while reporting substantial amounts of wage and salary income or living in households with substantial income from other sources. For example, one-fourth of those reporting self-employment income self-identified themselves as being an employee rather than as being self employed. Of those reporting self-employment income, 47 percent earned less than \$10,000 from that source. (In contrast, someone working full time at the minimum wage would have earned \$10,700.) On average, those reporting self-employment income up to about \$10,000 reported more wage and salary income than self-employment income.

Thus, based on these figures, close to half of those reporting self-employment income do not earn enough to live on and earn greater amounts of income from other sources (either their own wage and salary employment or the income of a spouse). This is relatively consistent with the Census Bureau not counting as running a business more than 40 percent of those in the BEA estimate of the number of proprietors.

**2. Internal Revenue Service:** Summary Statistics for Tax Year 2003.

Of the nearly 2.3 million tax returns filed by Arizonans for 2003, some 325,000 (14 percent) included business or profession net income. This understates the number of people with self-employment income due to some joint filers each having income from this source, but overstates the number of nonemployer businesses.

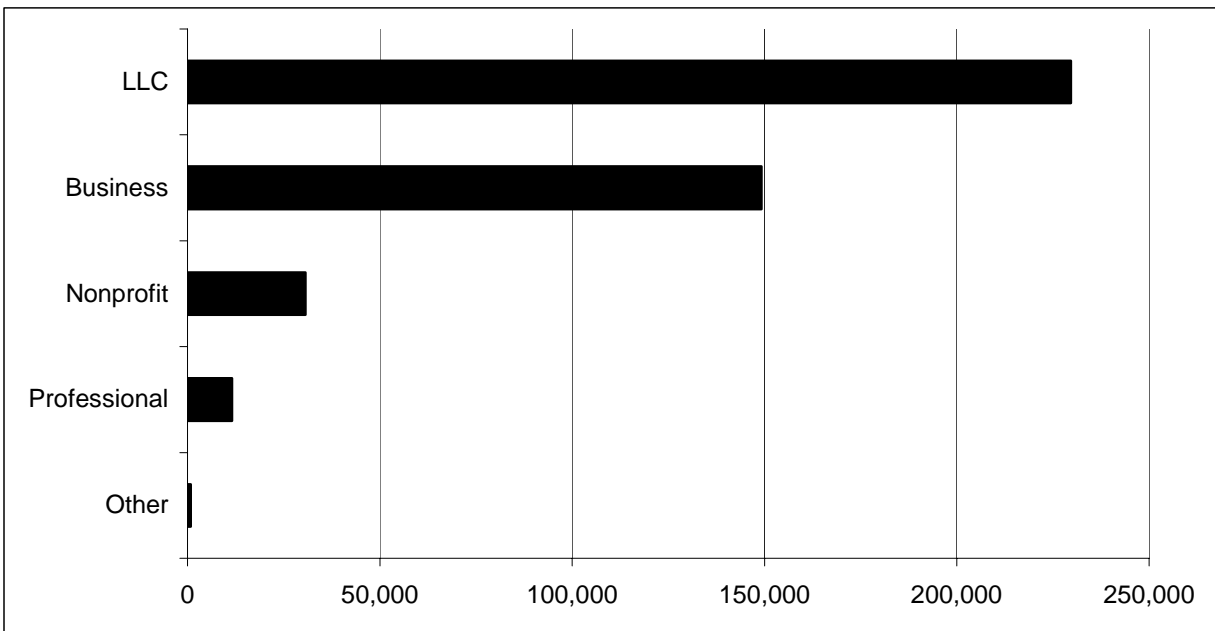
The average business or profession net income per tax return that reported this type of income was less than \$10,000. The amount of income from this source was only 3 percent of total adjusted net income.

**3. Arizona Corporation Commission:** Count of the number of corporations registered in Arizona.

As of May 2006, the ACC reported that 425,000 corporations were registered in Arizona. An undetermined number are not currently active in Arizona. A breakout of the number of corporations by type is shown in Chart A-1. More than half of the registered number are limited liability corporations, many of which are not independent businesses. In addition to the categorization shown in the chart, the ACC divides corporations into “domestic” (those based in Arizona) and “foreign” (those based out of state). Nearly 90 percent are domestic.

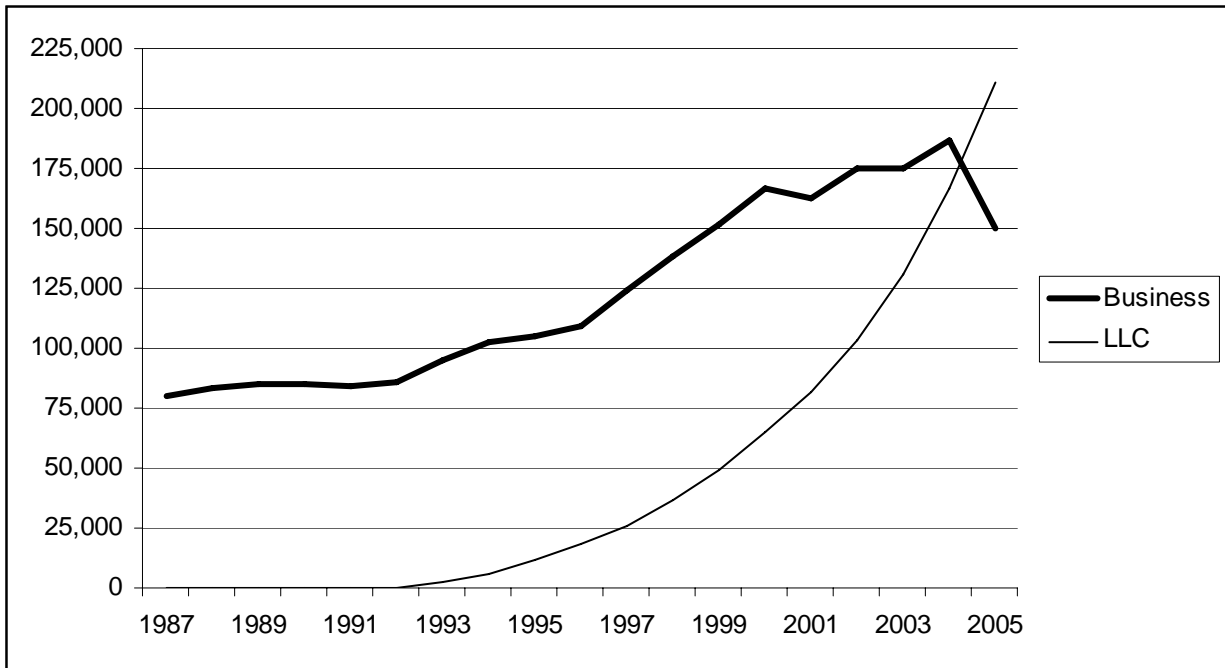
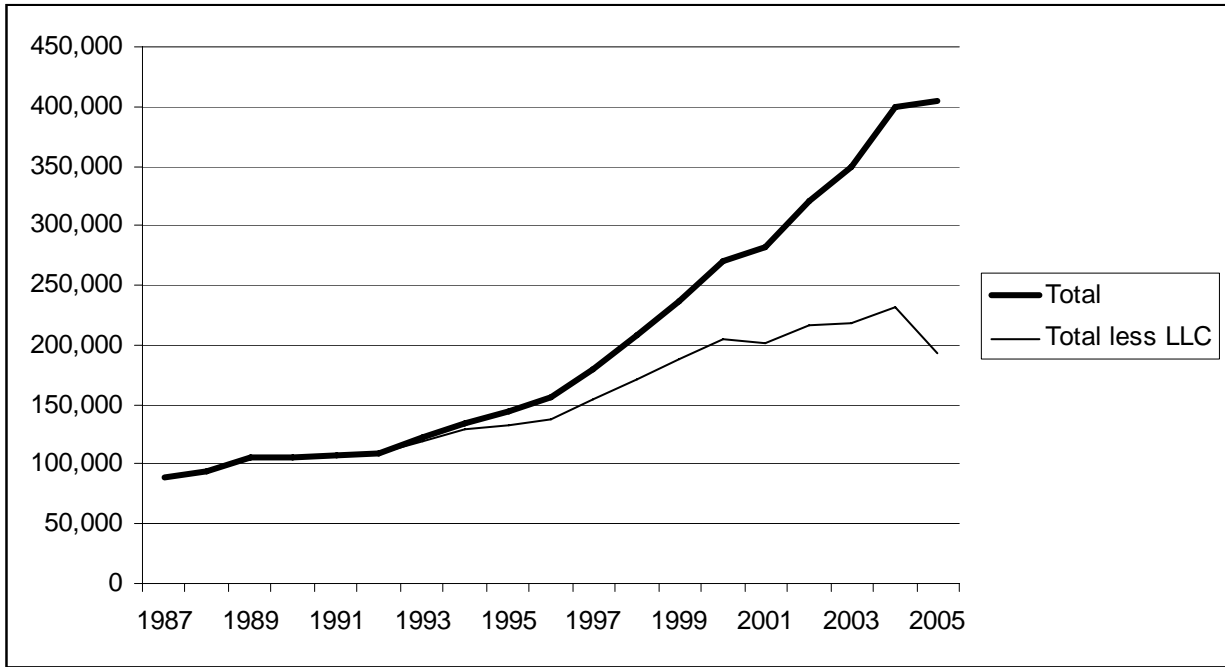
From the ACC database, it is possible to extract the number of registered corporations by type as of any date since the end of 1987. As seen in Chart A-2, the number of LLCs has increased substantially since their introduction in 1992. According to the ACC, the decrease in 2005 in the number of all types of corporations except LLCs largely resulted from an unusually large purge of records in November 2005.

**CHART A-1  
NUMBER OF CORPORATIONS BY TYPE REGISTERED IN ARIZONA, MAY 2006**

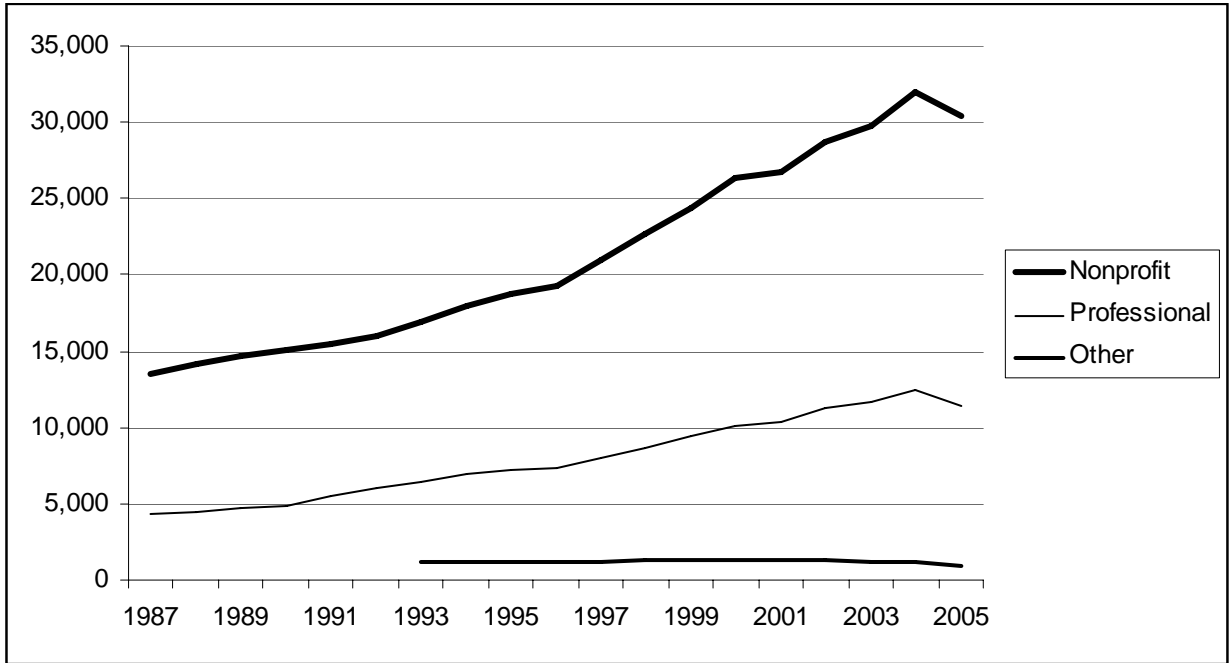


Source: Arizona Corporation Commission.

**CHART A-2  
NUMBER OF CORPORATIONS BY TYPE REGISTERED IN ARIZONA FROM CALENDAR  
YEAR ENDS 1987 THROUGH 2005**



(continued)



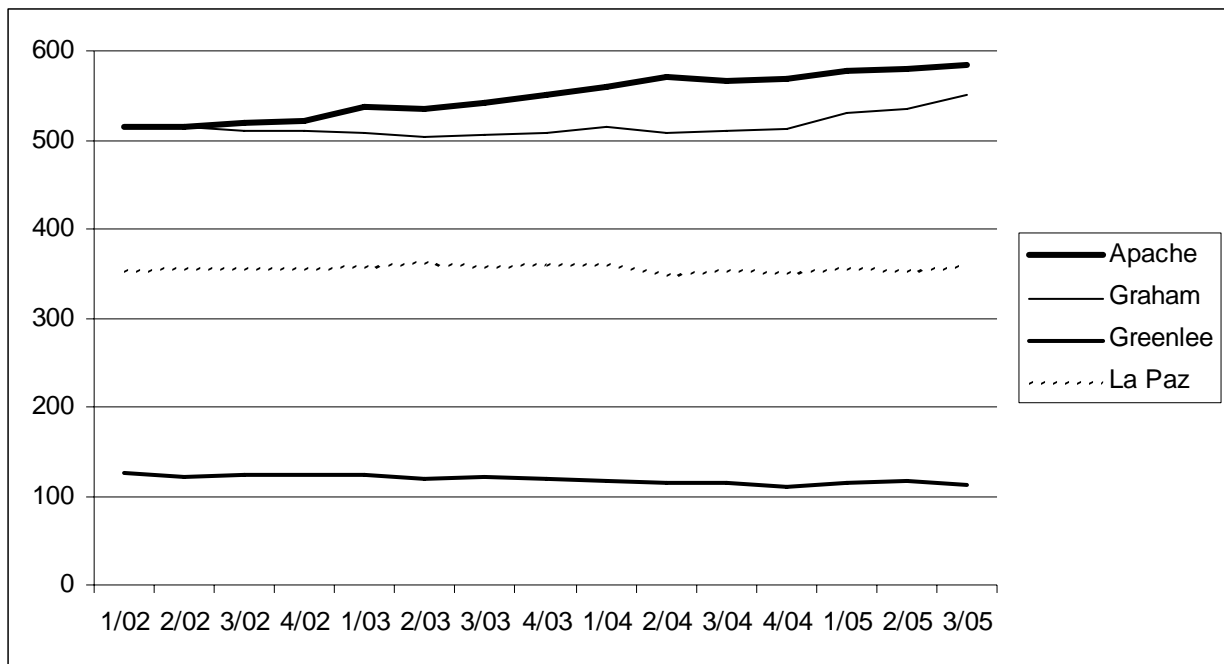
Source: Arizona Corporation Commission.

**4. U.S. Department of Labor, Bureau of Labor Statistics:** Count of number of establishments from the Quarterly Census of Employment and Wages (CEW).

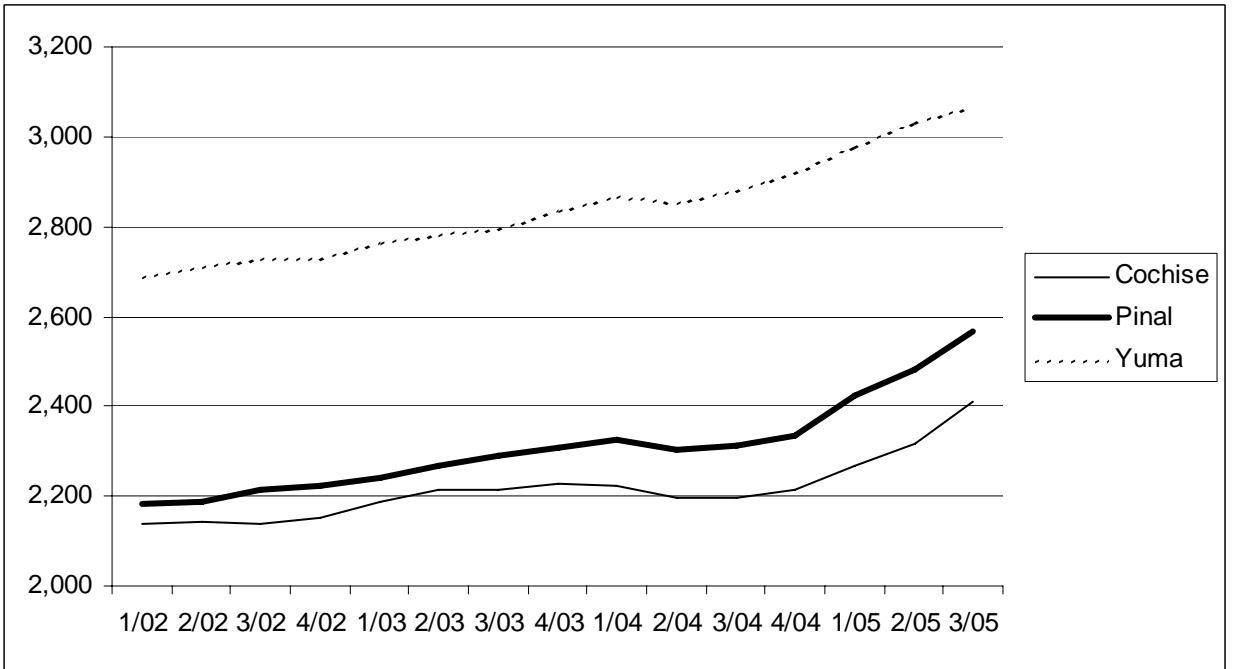
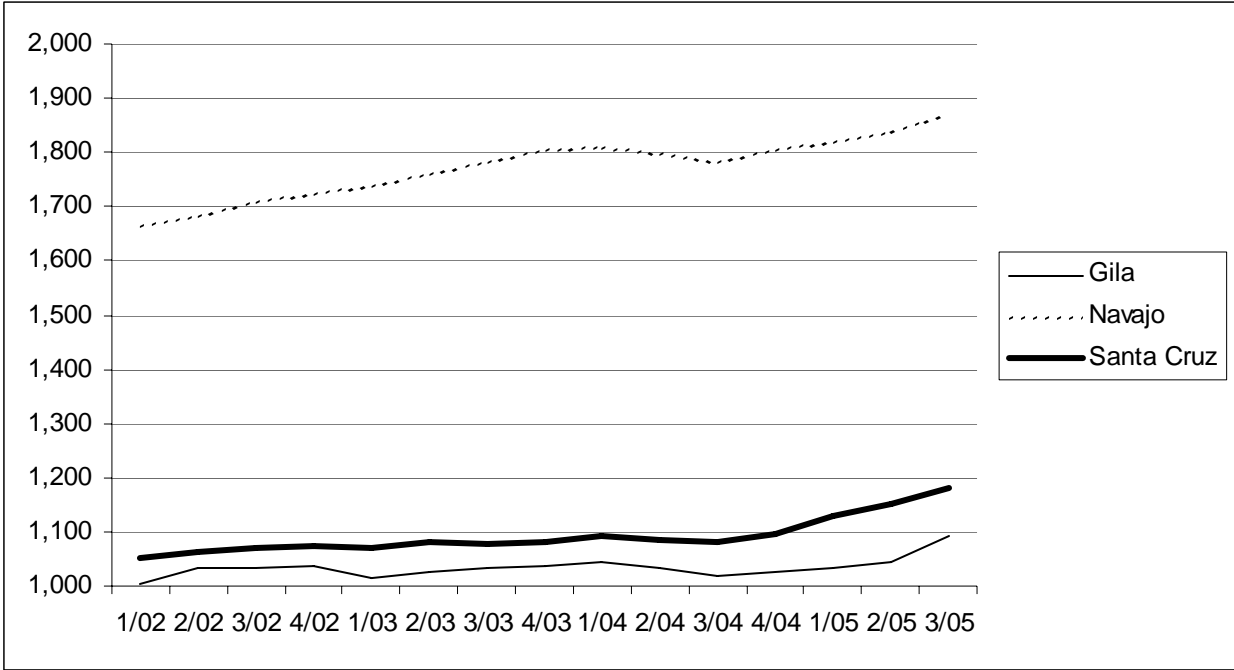
The data available from the CEW counts only employer establishments, but provides more up-to-date information than the Census Bureau data. Statewide, the number of establishments in 2003 from the CEW slightly exceeds the number reported by the Census Bureau. However, in most counties, the CEW figure is lower than the Census Bureau count. The CEW count is higher in Maricopa County and in those establishments not allocated to a county.

The following line graphs in Chart A-3 show the number of establishments reported by the CEW between the first quarter of 2002 and the third quarter of 2005 (the most recent data available). Most counties experienced either a steady increase in the number of establishments or little growth from 2002 into 2004 followed by a larger gain. The percentage change in the number of establishments between first quarter 2002 and third quarter 2005 is shown in Chart A-4 by county.

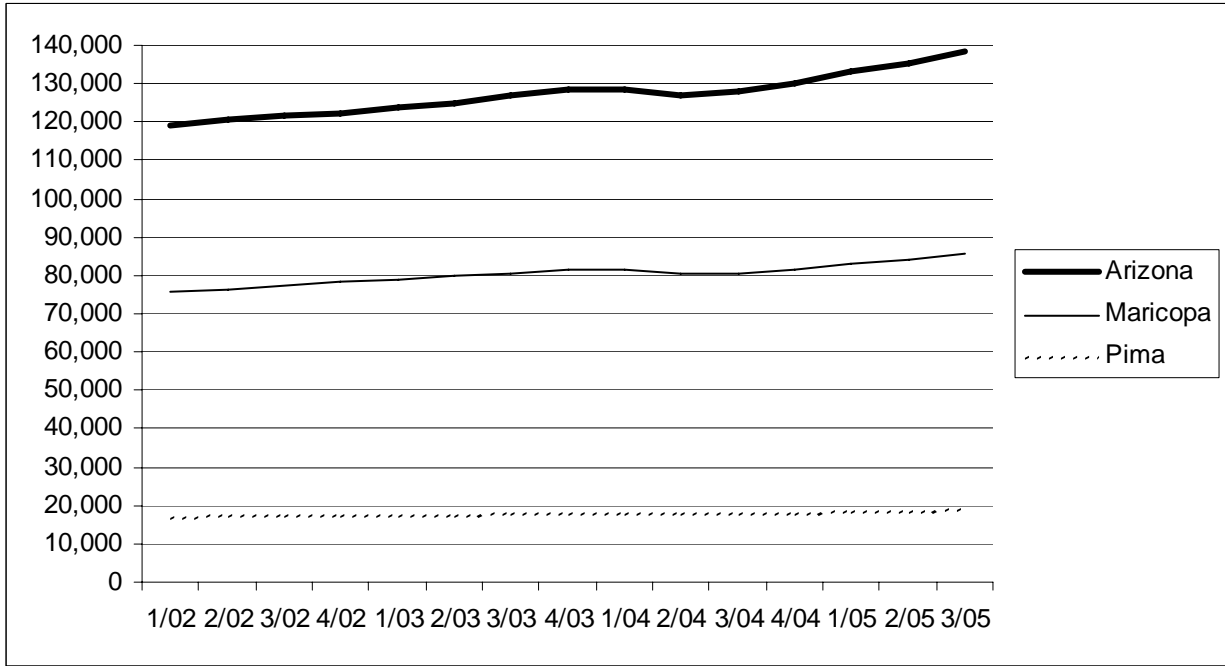
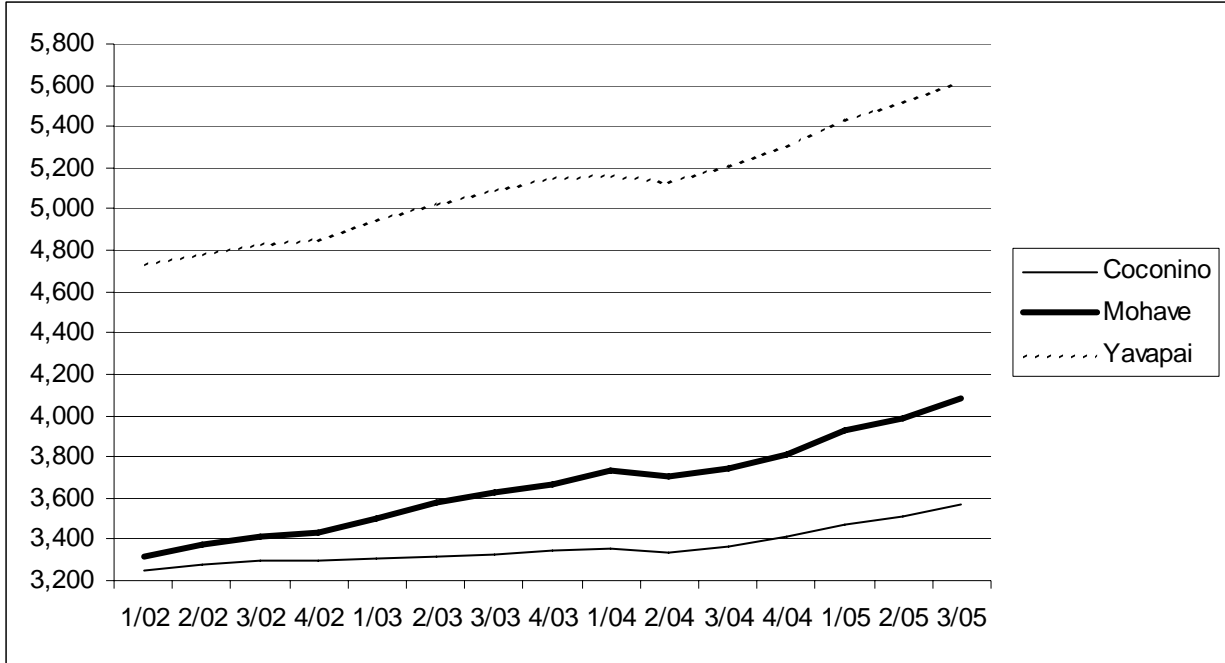
**CHART A-3  
NUMBER OF ESTABLISHMENTS IN ARIZONA BY COUNTY, FIRST QUARTER 2002  
THROUGH THIRD QUARTER 2005**



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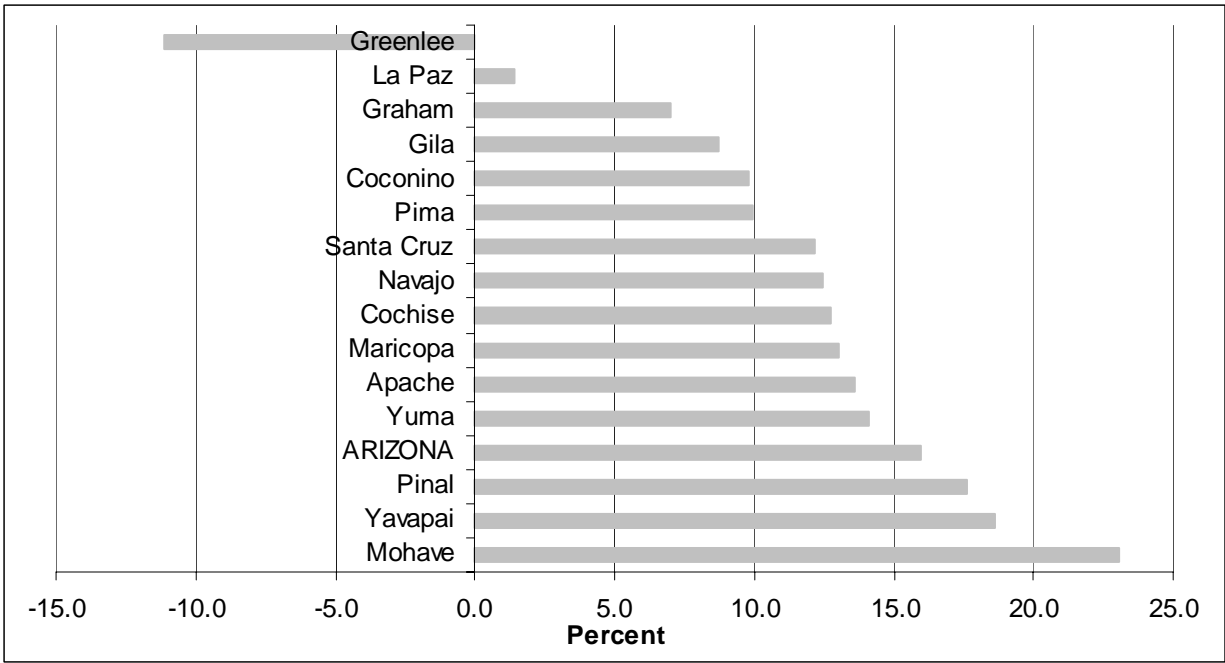


(continued)



Source: U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

**CHART A-4**  
**CHANGE IN NUMBER OF ESTABLISHMENTS IN ARIZONA BY COUNTY, FIRST QUARTER**  
**2002 THROUGH THIRD QUARTER 2005**



Source: Calculated from U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages.