

Premier Thoughts: The CSUB Business Blog

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The Economic Role of Small Businesses

Small businesses are companies that are independently owned and operated with fewer 500 employees. They are major providers of jobs and products. Their contributions to the United States economy are summarized as follows. Small businesses

- represent about 99 percent of all employers.
- employ more than one-half of all private-sector workers.
- pay 44 percent of total private payroll.
- have generated 64 percent of net new jobs over the past 15 years.
- create more than one-half of the nonfarm private Gross Domestic Product.
- hire 40 percent of high-tech workers, including scientists, engineers, and computer programmers.
- are 52 percent home-based and 2 percent franchise-based.
- make up about 97 percent of all identified exporters and produce 30 percent of the known export value.
- produce 13 times more patents per employee than large firms.

In particular, small businesses play four major roles in the economy:

Creating Jobs – Virtually all the new jobs created in the United States economy over the past decade were in businesses with fewer than 100 employees. Interestingly, companies with fewer than 20 employees were responsible for nearly two-thirds of these new jobs. However, jobs created by small businesses differ from those added by large companies in several key aspects. Small businesses generally pay less both in terms of wages and benefits. They hire many workers on a temporary or part-time basis. On average, workers employed by small businesses are either younger or older than those hired by big businesses, and have fewer years of formal education and work experience.

Producing New Products – Small businesses foster product innovation. A recent study of innovation in 121 industries found that small firms and individual inventors produced 40 percent of all new products. This is a remarkable contribution since small businesses account for only 5 percent of the nation's research and development funds. Many small business inventions such as the helicopter and stainless steel have turned into big business ventures.

Serving Large Corporations – Small businesses assist the operation of large corporations. They act as distributors of products, suppliers of materials, and contractors of services. In fact, some of the industry leaders outsource many of their products to smaller companies. For example, Liz Claiborne, a leading firm in the fashion industry, has no factories of its own. All of its garments are made on contract by outside suppliers.

Providing Specialized Products – Many small businesses specialize in production of goods and services that meet consumers' special needs. Unlike large companies that specialize in mass production, small businesses supply the kinds of products that are custom-made for a smaller client. Many successful small businesses find a "niche" in providing goods and services that satisfy special needs and wants.

Sources:

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Small Business Administration, "How important are small businesses to the U.S. economy?"
<http://www.sba.gov/advocacy/7495/8420>