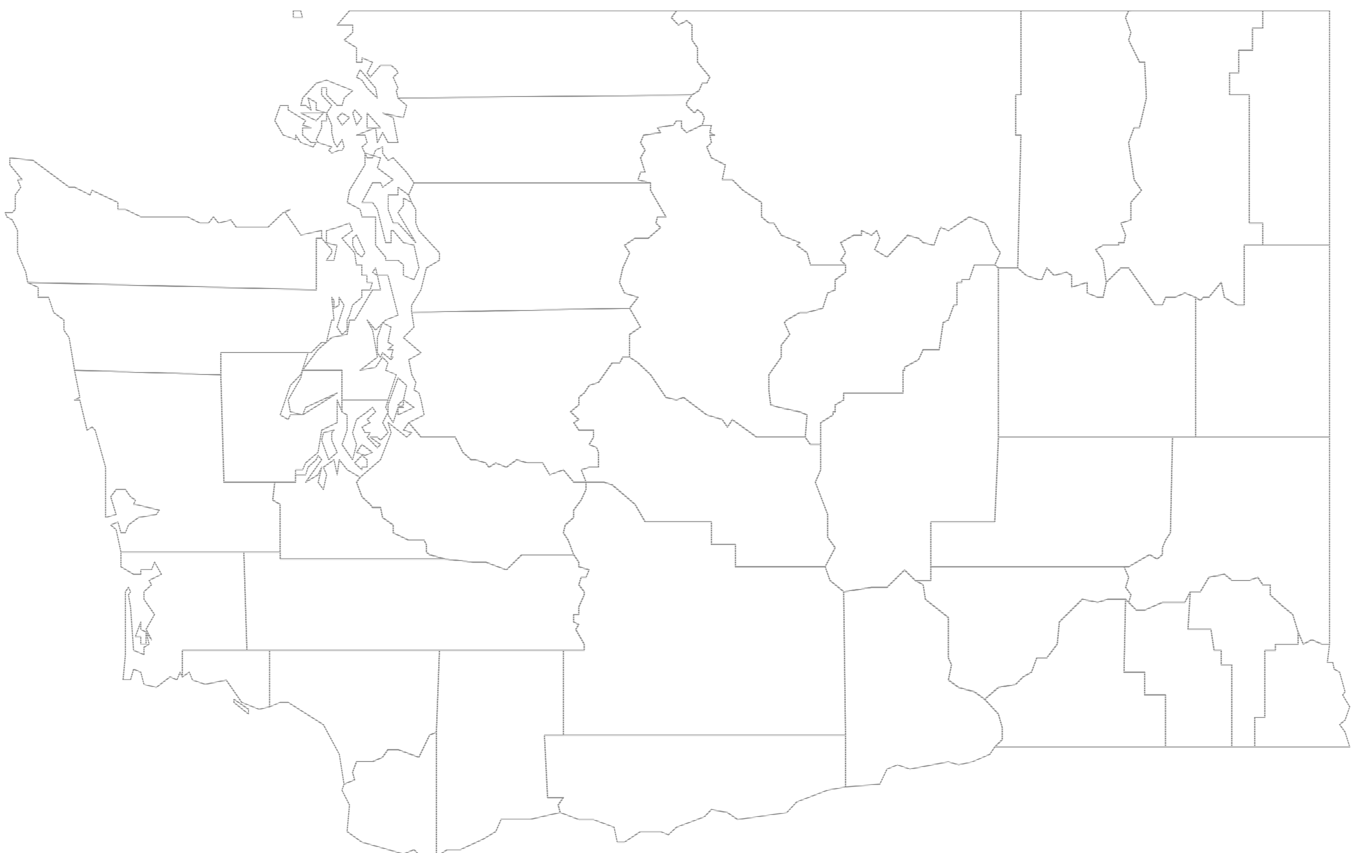
Employer Turnover

A Report to the Legislature



December 2003
Washington State Employment Security Department
Labor Market and Economic Analysis Division

About the Study:

This firm turnover study analyzes inactive and new accounts from 2000 through 2002. The study uses data from both the Covered Employee Wage database and individual firm records of employees called the "wage file". These two databases were combined to allow an analysis of both firm turnover and of the links between inactive accounts and new accounts seen through the movement of employees between firms.

The report is divided into two parts. The first looks at characteristics of inactive account and new accounts over time by industry group, geographic area, firm size, and average payroll paid by firms. The second part analyzes the extent to which employees move as a group from a firm whose account becomes inactive to a different firm. This includes a review of predecessor/ successor data to identify those firms that have emerged under new ownership with a new account number either through mergers and acquisitions or, in some cases, through a sale. The predecessor/ successor relationship is also investigated looking at firms that became inactive and had a given percentage of employees move to a newly active firm. These preliminary results are just for a given percentage of employees moving to any one firm.

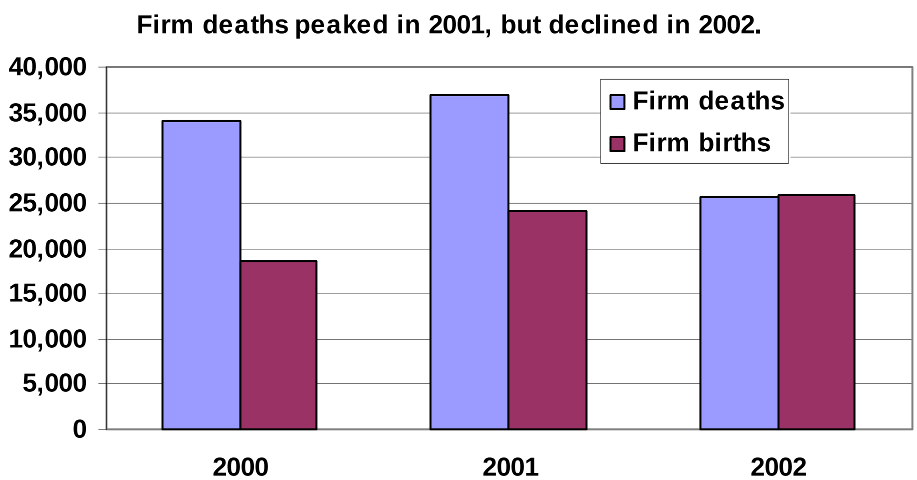
This review of the issues related to firm turnover is necessarily preliminary, in several senses. First, the process of developing this report revealed some questions regarding the quality of the December 2002 data. We have begun reviewing explanations and will share those findings as we become more confident in the explanations. Second, although the legislation directed the Department to comment on the "causes" of turnover, this aspect of the research has proven to beyond the reach of a short-term research project. We welcome the opportunity to explore the many issues raised by the question of root causes, but to do justice to the complex interaction of causes will require additional time. We would also want to pursue this line of questioning by engaging legislators and stakeholders more comprehensively in framing the questions we would address.

Part I: Inactive and active account followed by industry, geography, firm size, and average payroll of firms.

What has happened to the number of firm births and deaths over the past three years?

Firm deaths from 2000 to 2002

- The number of firm deaths declined by 24.8 percent between 2000 and 2002.
- The number of firm deaths peaked in 2001 with 37,014 firms becoming inactive.
- The number of firm births increased steadily between 2000 and 2002 by a total of 39.6 percent.



In what industries have firm accounts become inactive?

- The construction industry has the most inactive accounts in each of the three years. This number was very stable between 2000, 2001, and 2002.
- The retail, professional and technical businesses, and accommodation and food service industries all had over 2,000 inactive accounts for each of the three years. The number of inactive accounts, also, changed little over the three years for these industries.
- The number of inactive accounts in the information industry declined by the largest percentage from 2000 to 2002.
- The number of inactive accounts in the mining industry increased by the largest percentage from 2000 to 2002.

Firms sorted by number of inactive accounts in 2002.

Inactive accounts				
Industry	**2000**	**2001**	**2002**	**Change 2000 to 2002**
Construction	4,810	4,929	4,911	2%
Other services	11,200	12,657	2,848	-75%
Retail trade	2,619	2,753	2,558	-2%
Professional & technical services	2,544	2,819	2,514	-1%
Accommodation & Food Services	2,096	2,191	2,195	5%
Administrative & waste management	1,800	2,072	1,890	5%
Wholesale trade	1,881	1,986	1,857	-1%
Health	1,375	1,459	1,382	1%
Agriculture	1,052	1,109	1,001	-5%
Manufacturing	888	1,024	896	1%
Real Estate	872	971	799	-8%
Transportation	710	795	776	9%
Finance & Insurance	813	778	738	-9%
Information	739	742	559	-24%
Entertainment	312	346	343	10%
Education	261	299	263	1%
Management	30	29	30	0%
Mining	21	17	26	24%
Utilities	21	19	18	-14%
Public administration	41	17	13	-68%
unclassified	1	2	2	
Total	**34,086**	**37,014**	**25,619**	**-25%**
Missing	161	68	572	

This chart measures the total number of firm accounts that became inactive in 2000, 2001, and 2002 and the rate of change between 2000 and 2002.

See major industry groups definitions under the North American Industry Classification System (NAICS), Appendix 2.

What is the rate of inactive accounts in different industries?

- The construction industry has the highest rate of accounts becoming inactive in 2002 and among the highest inactive rates in each of the years. This is the industry with the largest number of inactive accounts as well.
- The administrative and waste services industry has the second highest rate of inactive accounts and the fifth highest number of inactive accounts in 2002. This industry includes temporary help firms.
- The information industry had the third highest rate of inactive accounts in 2002, the second highest in 2001 and the highest in 2000.
- While retail trade had the second highest number of inactive accounts in 2002, because of the large number of firms in this industry, it only has the ninth highest inactive rate.
- The manufacturing inactive rate is about half way down the list, but this rate has increased slightly since 2000.

Firms sorted by inactive account rate in 2002.

Inactive account rate			
	2000	2001	2002
Agriculture	10.2%	11.3%	10.6%
Mining	10.5%	8.5%	13.5%
Utilities	3.4%	3.0%	2.9%
Construction	19.8%	20.8%	20.2%
Manufacture	10.5%	12.7%	11.2%
Wholesale	14.4%	15.0%	13.6%
Retail	12.5%	13.6%	12.5%
Transportation	14.0%	16.0%	15.3%
Information	20.9%	21.8%	16.7%
Finance and Insurance	9.0%	9.5%	8.8%
Real Estate	11.9%	13.5%	10.9%
Professional	15.4%	17.2%	15.2%
Management	4.6%	4.8%	4.8%
Administrative	20.1%	22.6%	20.0%
Education	10.7%	12.1%	10.2%
Health	9.6%	10.1%	9.2%
Entertainment	13.0%	14.0%	13.4%
Accommodation & Food Services	15.9%	16.7%	15.9%
Other services	18.3%	19.6%	4.4%
Public administration	2.0%	0.8%	0.6%
total	14.2%	15.4%	14.1%

The total number of inactive accounts each year was divided by the annual average number of firms in each of the three years. These numbers are not directly comparable but provide some gauge of the relative magnitude of accounts becoming inactive in each industry.

In what industries have firms opened new accounts?

- The other services industry has the largest number of new accounts each year. This industry is dominated by a large number of very small firms.
- The construction industry has the second largest number of new accounts in each of the three years. This number increased steadily between 2000, 2001, and 2002.
- Professional and technical services, accommodation and food services, retail trade, wholesale trade, health care, and administrative and waste management industries all had large numbers of new accounts and all had a steadily increasing number of new accounts over each of the three years.
- The information industry had a relatively small number of new accounts that has remained almost constant over the three years.
- Overall the number of new accounts grew by 39.6 percent from 2000 to 2002, while the number of accounts becoming inactive declined by 25 percent.

Firms sorted by number of new accounts in 2002.

New accounts				
Industry	**2000**	**2001**	**2002**	**Change 2000 to 2002**
Other services	8,520	12,668	11,971	41%
Construction	1,754	2,060	2,706	54%
Professional & technical services	1,317	1,398	1,582	20%
Accommodation & food services	881	1,119	1,574	79%
Retail	1,026	1,099	1,496	46%
Wholesale	988	1,140	1,217	23%
Health	854	1,089	1,092	28%
Administrative & waste management	730	893	1,066	46%
Real Estate	444	485	530	19%
Manufacturing	350	366	514	47%
Finance & Insurance	438	444	485	11%
Transportation	247	311	439	78%
Agriculture	383	404	433	13%
Information	272	259	275	1%
Entertainment	148	178	239	61%
Education	140	174	207	48%
Management	15	11	15	0%
Public administration	6	42	11	83%
Utilities	13	14	10	-23%
Mining	4	10	9	125%
Total	**18,530**	**24,164**	**25,871**	**40%**

New firms were identified when a new account number was added to the covered employment file.

See major industry groups definitions under the North American Industry Classification System (NAICS), Appendix 2.

What is the rate at which new accounts are opened in different industries?

- The other services industry had the highest rate of new account creation in each of the three years. The other services industry is dominated by many very small firms. Other industries with a high rate of new account creation include:
    - Accommodation and food services,
    - Administrative and waste services, and
    - Construction
- All industries increased their rate of new account creation between 2000 and 2002 except utilities. Most also increased their rate of new account creation in 2001, even though this was a year of recession and 2002 saw net job losses in the economy.
- Mining, agriculture, management, utilities, and public administration had the lowest rates of new account creation.

Firms sorted by the rate at which new accounts were opened in 2002.

New account rate			
Industry	**2000**	**2001**	**2002**
Other services	13.9%	19.6%	18.5%
Accommodation and food services	6.7%	8.5%	11.4%
Administrative and waste services	8.1%	9.8%	11.3%
Construction	7.2%	8.7%	11.1%
Professional and technical services	8.0%	8.5%	9.5%
Arts, entertainment, and recreation	6.2%	7.2%	9.4%
Wholesale trade	7.5%	8.6%	8.9%
Transportation and warehousing	4.9%	6.3%	8.7%
Information	7.7%	7.6%	8.2%
Educational services	5.8%	7.1%	8.0%
Retail trade	4.9%	5.4%	7.3%
Health care and social assistance	6.0%	7.5%	7.3%
Real estate and rental and leasing	6.1%	6.7%	7.2%
Manufacturing	4.1%	4.5%	6.4%
Finance and insurance	4.9%	5.4%	5.8%
Mining	2.0%	5.0%	4.7%
Agriculture, forestry, fishing and hunting	3.7%	4.1%	4.6%
Management of companies and enterprises	2.3%	1.8%	2.4%
Utilities	2.1%	2.2%	1.6%
Public administration	0.3%	2.0%	0.5%
Total	**9.3%**	**11.9%**	**12.4%**

The total number of new accounts each year was divided by the annual average number of firms in each of the three years. These numbers are not directly comparable but provide some gauge of the relative magnitude of new accounts in each industry.

How do inactive accounts and new accounts compare?

- Most firms have more accounts becoming inactive over these years than new accounts. Contributing factors are likely:
  - The recession
  - Accounts are not necessarily individual industries. For example, a grocery store chain could either choose to have one account for all stores or a different account for each store. This complicates the interpretation of the numbers.
  - Mergers and acquisitions are not accounted for in these numbers. A firm that is bought out by another is going to look like a firm death when in fact it may continue on without many changes.
- The Other services industry has a much larger number of new accounts than inactive accounts in 2002. This industry is dominated by a huge number of very small firms.
- Although inactive accounts exceed new accounts for most industries, the difference has tended to decline from 2000 to 2002.

New accounts less inactive accounts			
	2000	**2001**	**2002**
Accommodation & Food Services	-1,215	-1,072	-621
Administrative & waste management	-1,070	-1,179	-824
Agriculture	-669	-705	-568
Construction	-3,056	-2,869	-2,205
Education	-121	-125	-56
Entertainment	-164	-168	-104
Finance & Insurance	-375	-334	-253
Health	-521	-370	-290
Information	-467	-483	-284
Management	-15	-18	-15
Manufacturing	-538	-658	-382
Mining	-17	-7	-17
Professional & technical services	-1,227	-1,421	-932
Real Estate	-428	-486	-269
Retail	-1,593	-1,654	-1,062
Transportation	-463	-484	-337
Utilities	-8	-5	-8
Wholesale	-893	-846	-640
Public administration	-35	25	-2
Other services	-2,680	11	9,123
Total	-15,556	-12,850	252

How are inactive accounts distributed across Workforce Development Areas?

- The highest percentage of inactive accounts in 2002, were in Snohomish County. Snohomish also had a relatively high unemployment rate in 2002.
- 2001 was the year with the highest rate of inactive accounts for all areas. By contrast 2002 was the year with the lowest percentage.
- The Tri-county area which has been helped along by the Hanford vitrification plant had the lowest rate of inactive accounts.
- Those Workforce Development areas (see Appendix 1) containing an urban county had relatively higher inactive account rates than rural areas, except for Spokane.
- King County had the highest rate of inactive accounts for 2000 and 2001.

Inactive accounts as a percent of number of firms				
Workforce Development Area	**2000**	**2001**	**2002**	**Unemployment rate 2002**
Snohomish County	13.2%	15.0%	8.5%	7.7%
Seattle-King County	13.7%	15.8%	8.1%	6.5%
Southwest Washington	13.0%	15.5%	7.9%	8.8%
Olympic Consortium	11.9%	13.8%	7.9%	6.5%
Northwest	11.8%	13.2%	7.8%	6.6%
Pierce County	12.2%	14.2%	7.4%	7.5%
Pacific Mountain	12.1%	14.1%	7.1%	7.1%
North Central Washington/Columbia Basin	10.8%	12.8%	6.6%	9.1%
Spokane	11.9%	13.4%	6.5%	6.9%
Eastern Washington	10.5%	12.1%	6.3%	7.4%
Benton-Franklin	11.8%	12.6%	6.3%	6.8%
Tri-County	11.6%	13.7%	6.1%	10.1%
Total	12.6%	14.6%	7.5%	7.3%

The total number of new accounts each year was divided by the annual average number of firms in each of the three years. These numbers are not directly comparable but provide some gauge of the relative magnitude of new accounts in each industry.

How are new accounts distributed across Workforce Development Areas?

- Southwest Washington had the highest rate of new accounts in 2002. Southwest also had a fairly high rate of new account creation in 2000 and 2001.
- Benton-Franklin had the third highest rate of new account creation in 2002 and the highest rate in 2001. As with inactive accounts, these numbers reflect the positive effect of the Hanford vitrification construction on the local economy.
- King County had the second highest rate of new account creation in 2001, but is ninth lowest in 2002.

New accounts as a percent of number of firms			
Workforce Development Area	**2000**	**2001**	**2002**
Southwest Washington	6.7%	10.0%	7.7%
Pierce County	6.6%	9.6%	7.5%
Tri-County	6.1%	10.1%	7.3%
Benton-Franklin	7.2%	11.0%	7.2%
Olympic Consortium	6.1%	9.6%	7.1%
Pacific Mountain	6.2%	9.5%	7.0%
Spokane	6.2%	9.7%	7.0%
Eastern Washington	5.9%	9.1%	6.8%
Seattle-King County	6.9%	10.9%	6.8%
Northwest	6.1%	8.4%	6.8%
Snohomish County	5.8%	8.2%	6.7%
North Central Washington/Columbia Basin	5.5%	9.0%	6.3%
Total	6.1%	9.4%	6.6%

The total number of new accounts each year was divided by the annual average number of firms in each of the three years. These numbers are not directly comparable but provide some gauge of the relative magnitude of new accounts in each industry.

How do new accounts and inactive accounts vary by the size of firms?

- New accounts are disproportionately concentrated in firms with greater than zero and up to 20 employees. The majority of firms are in this size class, although only 25 percent of workers worked in firms of this size in the first quarter of 2003.
- Inactive accounts are disproportionately concentrated in firms with zero employees. These are firms which have an owner but no employees. The effect of their presence or absence in the economy is hard to judge without knowing more about their owners. Some probably are able to support themselves off their firms, others probably exist in name only.
- Larger firms both have less likelihood of being started in a new account and less likelihood in becoming inactive.

	New Accounts			First quarter 2003
Firm Size - # of employees	**Year 2000**	**Year 2001**	**Year 2002**	**distribution of firms**
zero	13.3%	10.0%	15.9%	21.6%
0 > to 20	83.5%	87.4%	82.2%	69.2%
20 > to 50	2.1%	1.6%	1.3%	5.7%
50 > to100	0.7%	0.6%	0.3%	1.9%
100 > to 500	0.4%	0.5%	0.2%	1.4%
>500	0.0%	0.0%	0.0%	0.2%

	Inactive Accounts			First quarter 2003
Firm Size - # of employees	**Year 2000**	**Year 2001**	**Year 2002**	**distribution of firms**
zero	56.5%	59.1%	43.2%	21.6%
0 > to 20	40.8%	38.5%	53.7%	69.2%
20 > to 50	1.6%	1.5%	2.0%	5.7%
50 > to 100	0.6%	0.5%	0.5%	1.9%
100 > to 500	0.5%	0.3%	0.5%	1.4%
>500	0.0%	0.0%	0.1%	0.2%

What average wages are paid by those firms whose accounts become inactive and those that have new accounts?

- New accounts are overwhelmingly located in those paying a low average income. This could very well be due to the gradual nature that a firm starts up and gets underway.
- Inactive accounts are less concentrated in the low income group. In fact, over a quarter are in the upper income group. Here mergers and acquisitions may explain the accounts becoming inactive or the firm may be national and just closing a branch in the state.

	Year 2000		Year 2001		Year 2002	
Earning Level	New account	Inactive account	New account	Inactive account	New account	Inactive account
low income	70.1%	54.0%	75.8%	54.7%	74.2%	53.4%
partial low	5.6%	7.5%	4.5%	7.0%	4.9%	7.1%
medium low	6.2%	9.6%	5.2%	9.3%	5.8%	10.3%
upper income	17.7%	27.2%	14.3%	27.0%	14.6%	26.8%
0	0.4%	1.8%	0.3%	1.9%	0.4%	2.5%

Inactive and new accounts were classified according to the average earnings paid to employees. For inactive accounts, the quarter before the account became inactive was used to compute earning level. For new accounts, the quarter following the new account was used to determine earning level. Low income was less than or equal to $13,000 on an annual basis, partial low was $13,000 to $16,000, medium low was $16,000 to $21,500, and upper income was above $21,500.

Part II: results of employee tracking

The first run of the employee tracking program identifies employees that move from an inactive firm to a different firm. For example, the first row and first column indicates that 233 firms had fewer than 10 percent of their employees move to the same firm. Another example is the sixth row and third column where 1,535 firms had between 50 and 60 percent of their employees move on to one firm. The next column shows that this accounts for 16 percent of all firms that became inactive in the year 2001.

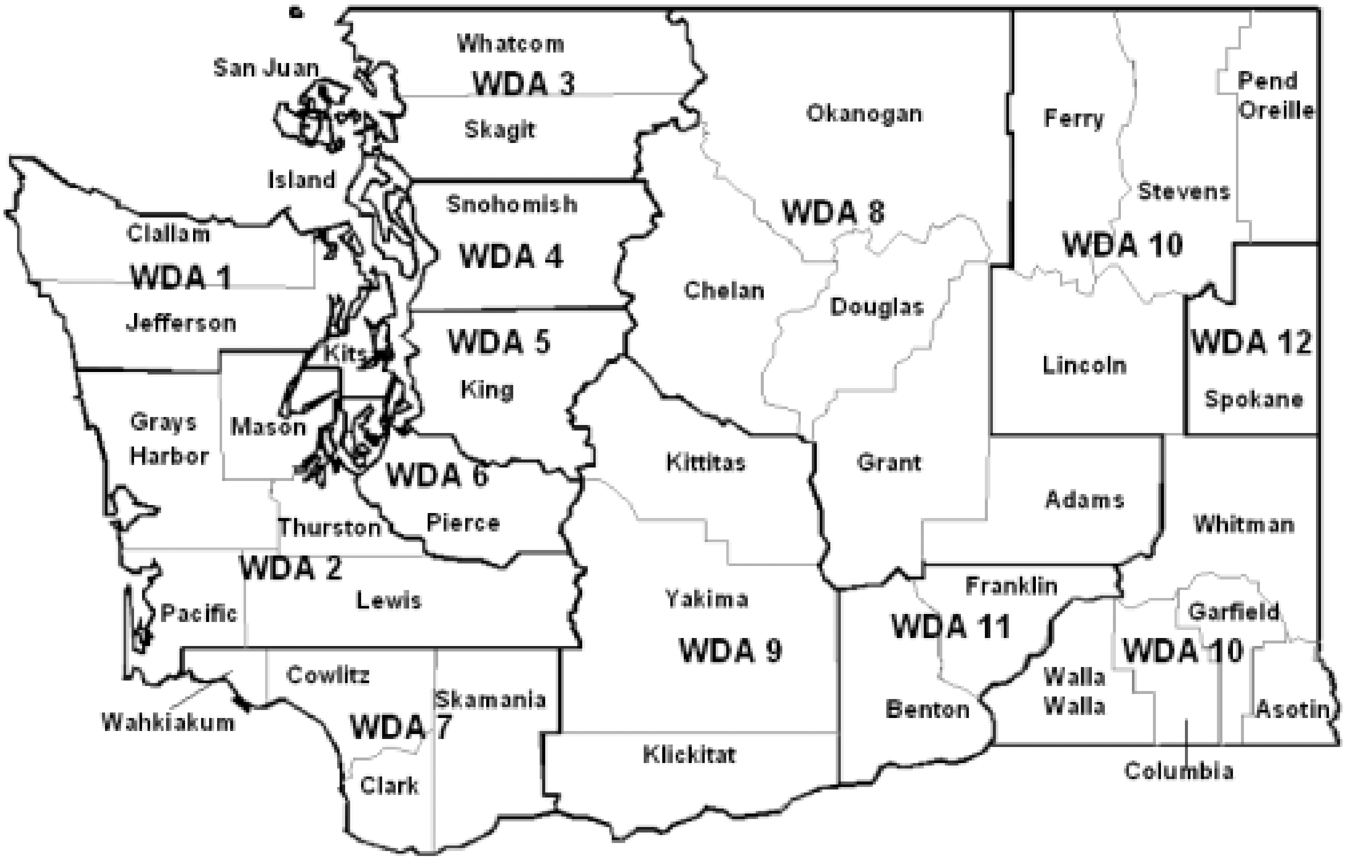
A large number of firms, which have inactive accounts, have a large percentage of their employees move on to a single firm. The follow-up study will look at those inactive firms where employees move on to a single newly active account and will also track mergers and acquisitions.

Percentage of an inactive firm's employees worked in same firm 1 quarter later

	2000		2001		2002	
	# of firms	% of firms	# of firms	% of firms	# of firms	% of firms
fewer than 10% of employees move to same firm	**233**	2%	251	3%	107	2%
Between 10% and 20% of employees move to same firm	613	6%	574	6%	342	6%
Between 20% and 30% of employees move to same firm	870	8%	812	8%	499	9%
Between 30% and 40% of employees move to same firm	855	8%	767	8%	512	9%
Between 40% and 50% of employees move to same firm	267	3%	240	2%	150	3%
Between 50% and 60% of employees move to same firm	1665	16%	**1535**	**16%**	894	16%
Between 60% and 70% of employees move to same firm	696	7%	667	7%	409	7%
Between 70% and 80% of employees move to same firm	571	5%	480	5%	253	4%
Between 80% and 90% of employees move to same firm	595	6%	567	6%	283	5%
Between 90% and 100% of employees move to same firm	4309	40%	3974	40%	2242	39%
Total	10674	100%	9867	100%	5691	100%

Appendix 1

Workforce Development Areas



WDA 1 Olympic: Clallam, Jefferson, Kitsap
WDA 2 Pacific Mountain: Grays Harbor, Lewis, Mason, Pacific, Thurston
WDA 3 Northwest: Island, Skagit, San Juan, Whatcom
WDA 4 Snohomish County
WDA 5 Seattle-King County
WDA 6 Tacoma-Pierce County
WDA 7 Southwest: Clark, Cowlitz, Skamania, Wahkiakum
WDA 8 North Central: Adams, Chelan, Douglas, Grant, Okanogan
WDA 9 Tri-County: Kittitas, Klickitat, Yakima
WDA 10 Eastern: Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Stevens, Walla Walla, Whitman
WDA 11 Benton and Franklin Counties
WDA 12 Spokane County

Appendix 2

Industry Group Definitions

Washington's *Job Vacancy and Employee Benefit Survey* used a sample of firms representative of the industry composition of Washington employers. The new North American Industry Classification System (NAICS) was used to define and sort firms by industry. Firms are classified by industry as part of the ongoing administration of the unemployment insurance tax program. Major NAICS groupings are outlined below:

Industry		Definition
11	Agriculture, Forestry, Fishing, Hunting	Firms engaged in growing crops, raising animals, harvesting timber, harvesting fish and other animals from farms, ranches, or the animals' natural habitat.
21	Mining	Firms that extract naturally occurring mineral solids, liquid minerals, and gases.
22	Utilities	Firms engaged in generating, transmitting, and/or distributing electricity, gas, steam, and water, and removing sewage through a permanent infrastructure.
23	Construction	Firms engaged in erecting buildings and other structures; heavy construction other than buildings; and alterations, reconstruction, installation, and maintenance and repairs.
31-33	Manufacturing	Firms engaged in the mechanical, physical, or chemical transformation of material, substances, or components into new products.
41-43	Wholesale Trade	Firms engaged in selling or arranging for the purchase or sale of goods for resale; capital or durable nonconsumer goods; and raw and intermediate materials and supplies used in productions, and providing services incidental to the sale of the merchandis
44-46	Retail Trade	Firms engaged in retailing merchandise generally in small quantities to the general public and providing services incidental to the sale of the merchandise.
48-49	Transportation and Warehousing	Firms that provide transportation of passengers and cargo, warehousing and storing goods, scenic and sightseeing transportation, and supporting these activities.
51	Information	Firms engaged in distributing information and cultural precuts, providing the means to transmit or distribute these products as data or communications, and processing data.
52	Finance and Insurance	Firms engaged in the creation, liquidation, or change in ownership of financial assets (financial transactions) and/or facilitating financial transactions.
53	Real Estate and Rental and Leasing	Firms engaging in renting, leasing, or otherwise allowing the use of tangible or intangible assets (except copyrighted works), and providing related services.
54	Professional, Scientific, and Technical Services	Firms specializing in performing professional, scientific, and technical services for the operations of other organizations.
55	Management of Companies and Enterprises	Firms who hold securities of companies and enterprises, for the purpose of owning controlling interest or influencing their management decision, or administering, overseeing, and managing other establishments of the same company or enterprise and normally
56	Administrative and Support and Waste Management and Remediation Services	Firms performing routine support activities for the day-to-day operation of other organizations.
61	Educational Services	Firms providing instruction and training in a wide variety of subjects.
62	Health Care/Social Assistance	Firms providing health care and social assistance for individuals.
71	Arts, Entertainment/Recreation	Firms engaged in operating or providing services to meet varied cultural, entertainment, and recreational interests of their patrons.
72	Accommodation and Food Services	Firms providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption.
81	Other Services (except Public Administration)	Firms providing services not elsewhere specified, including repairs, religious activities, grant making, advocacy, laundry, personal care, death care, and other personal services.
91-93	Public Administration	Federal, state and/or local agencies that administer, oversee, and manage public programs and have executive, legislative, or judicial authority over other institutions in a given area.

Source: North American Industry Classification System, United States Office of Management and Budget, 1997. NAICS Web page: www.census.gov/epcd/www/naics.html