

**MEASURING COMPANY SIZE  
IN EMPIRICAL RESEARCH:  
THE USE OF THREE SUGGESTED  
COMPOSITE MEASURES**

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**ABSTRACT**

Researchers should choose variables based on theory confirmed through empirical evidence. However, a previous study showed that measures of company size are primarily chosen to match arbitrary selections in previous research.

This extension of prior work on single measures tests composite measures of company size to improve comparisons made between studies and over time. The three measures proposed and studied are built from the four most commonly used size measures in accounting research (total assets, net sales, market value of equity, and number of employees). The three suggested composites each correlate more highly with traditional measures than any single traditional measure does on its own. The three suggested composites are: Logged Geometric Mean, Logged Mean of Scaled Variables, and Normalized Means.

Three tests assessed the proposed composite measures: Pearson Correlation, Spearman Ranked Correlation, and Classification Reliability. In addition to total sample tests, seven SIC industry groupings were also tested with the three composite measures.

We conclude that the Logged Geometric Mean seems superior overall as compared to the other composite measures. It performs much better than the individual measures and marginally better than the other two composite models. Additional advantages are that it is easier to calculate and explain.