

# Nonemployer Businesses & Diversity

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## KEY POINTS:

- Businesses without any paid employees, or nonemployer establishments, were 77% of U.S. businesses in 2018
- Nonemployer businesses offer an important path for owning and growing a business for entrepreneurs of color in Wisconsin
- Racial and ethnic diversity is associated with nonemployer growth from 2010 - 2018 in Wisconsin

Nonemployer establishments, sole proprietorships and partnerships without any paid employees, are an important part of the country's economy. As of 2018, they made up a large and quickly growing share of businesses in the United States at 77% of the total while the other 23% of establishments were employer businesses<sup>1</sup>. Given that nonemployer establishments are businesses without employees, they are predominantly independent contractors who work for themselves or small businesses operated only by the owner(s) or unpaid members of their family.

Nonemployer establishments have grown in number and as a share of total businesses over time. Since the end of the Great Recession in 2010, the growth of nonemployer establishments outpaced the growth of employer establishments and contributed to the national increase of all businesses to a much greater extent. From 2010 to 2018, the number of nonemployer businesses grew by 20% while the number of employer establishments only grew by 7%, for a total 17% increase for all businesses<sup>2</sup>. The increase of nonemployer businesses over employer businesses, such as traditional industrial firms, corresponds with the rise of the gig economy as companies elect to contract services from individuals as opposed to hiring employees.

This rise in self-employment through nonemployer establishments is important as they are an entrepreneurial seedbed for the economy. These firms are potential sources of job creation—25% of nonemployer businesses plan to hire employees in the future (The Federal Reserve Bank of New York, 2019). At the very least, they create a job for the owners themselves. There is also evidence that these are more than small side businesses—63% of nonemployer establishments operate as the owner's primary source of income (The Federal Reserve Bank of New York, 2019). Therefore, these businesses are important sources of income and future job growth.

According to data from the U.S. Census, business owners of color are more likely to own businesses without any employees, suggesting that the rise of nonemployer businesses may be linked to the

<sup>1</sup> Authors' analysis of the 2010 and 2018 CBP and NES data

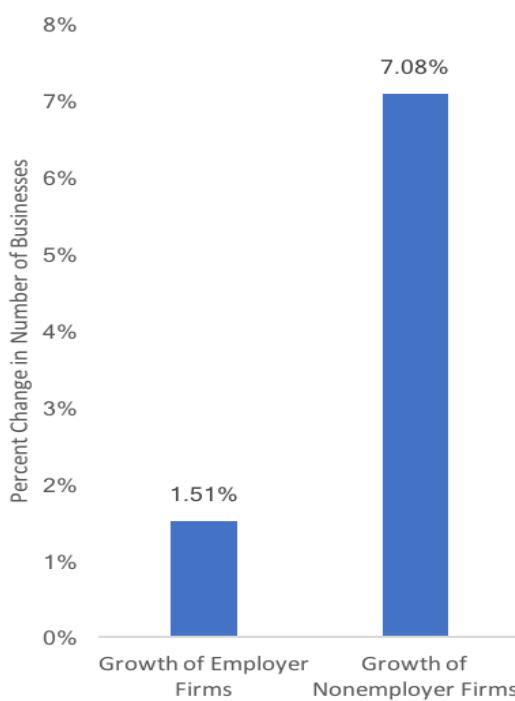
<sup>2</sup> Ibid

non-white population<sup>3</sup>. According to a new state-level data set, in Wisconsin, 85% of minority-owned businesses were nonemployer businesses, compared to 77% for the nonminority population<sup>4</sup>. As a share of Wisconsin's total businesses, 10% of nonemployer businesses are minority-owned while just 6% of employer businesses are owned by ethnically and racially diverse populations<sup>5</sup>. Taken together, it suggests that, especially for entrepreneurs of color, nonemployer businesses offer an important path to owning and growing a business.

While smaller in number and in size, the importance of minority-owned businesses to the economy is becoming increasingly evident. Citing diversity as an essential component to the nation's economy, the U.S. Senate's Committee on Small Business and Entrepreneurship described the significance of businesses owned by racial and ethnic minorities in the United States. They report that out of the 2 million businesses introduced to the nation's economy over the past 10 years, minority entrepreneurs owned more than 50% (U.S. Senate Committee on Small Businesses and Entrepreneurship). In addition to contributing to the growth of businesses across the country, the report also states that these establishments created 4.7 million jobs during the same time period.

Given these statistics highlighting the recent expansion of nonemployer businesses alongside the relative prevalence of diverse owners and their economic potential, in the next section we study the

**FIGURE 1: GROWTH RATE OF EMPLOYER AND NONEMPLOYER ESTBALISHMENTS IN WISCONSIN; 2010 - 2018**



relationship between population diversity and the growth of nonemployer businesses.

Unfortunately, there is no historical data tracking the demographic details of nonemployer businesses, nor is the detailed 2017 nonemployer data available for small geographies such as U.S. counties, small cities, or towns. Thus, understanding the rise of nonemployer businesses across Wisconsin relies on statistical analysis. In our specific analysis of counties in Wisconsin, we find relationships between the population diversity and the recent growth of nonemployer businesses by county.

## Nonemployer Business Growth in Wisconsin

When we narrow the analysis to only Wisconsin, it is clear that the state's trends of nonemployer growth tracks with the nation. As seen in Figure 1, the growth of nonemployer businesses between 2010 to 2018 was significantly higher than the growth of employer establishments

3 Authors' analysis of the Survey of Business Owners.

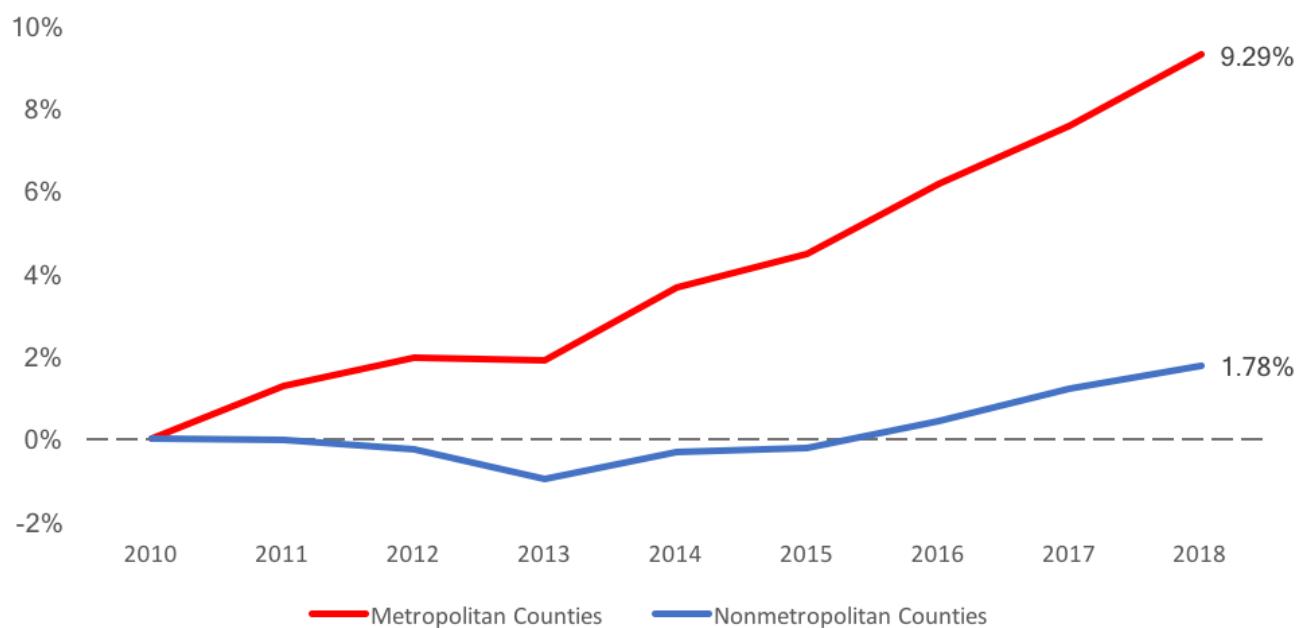
4 The U.S. Census' definition of minority are people who do not fall into the category of non-Hispanic white, which accounts for Hispanic, Black or African American, Asian, and American Indian groups.

5 Authors' analysis of 2017 Annual Business Survey and Nonemployer Statistics.

over the same period. For instance, while the number of employer establishments increased by 2,112 businesses, 23,474 nonemployer firms were added to Wisconsin's economy<sup>6</sup>. Thus, nonemployer businesses are essential to business growth in Wisconsin in the period after the Great Recession.

Nonemployer establishment growth in Wisconsin is particularly prominent in metropolitan counties. As seen in Figure 2, the growth of nonemployer establishments in Wisconsin's metropolitan counties has outpaced that of nonmetropolitan areas of the state. Since the Great Recession, nonemployer businesses in rural areas grew by less than 2% while the number of urban nonemployers has grown by over 9% over the same period.

**FIGURE 2: GROWTH RATE OF WISCONSIN NONEMPLOYER ESTABLISHMENTS IN METROPOLITAN AND NONMETROPOLITAN COUNTIES; 2010 - 2018**

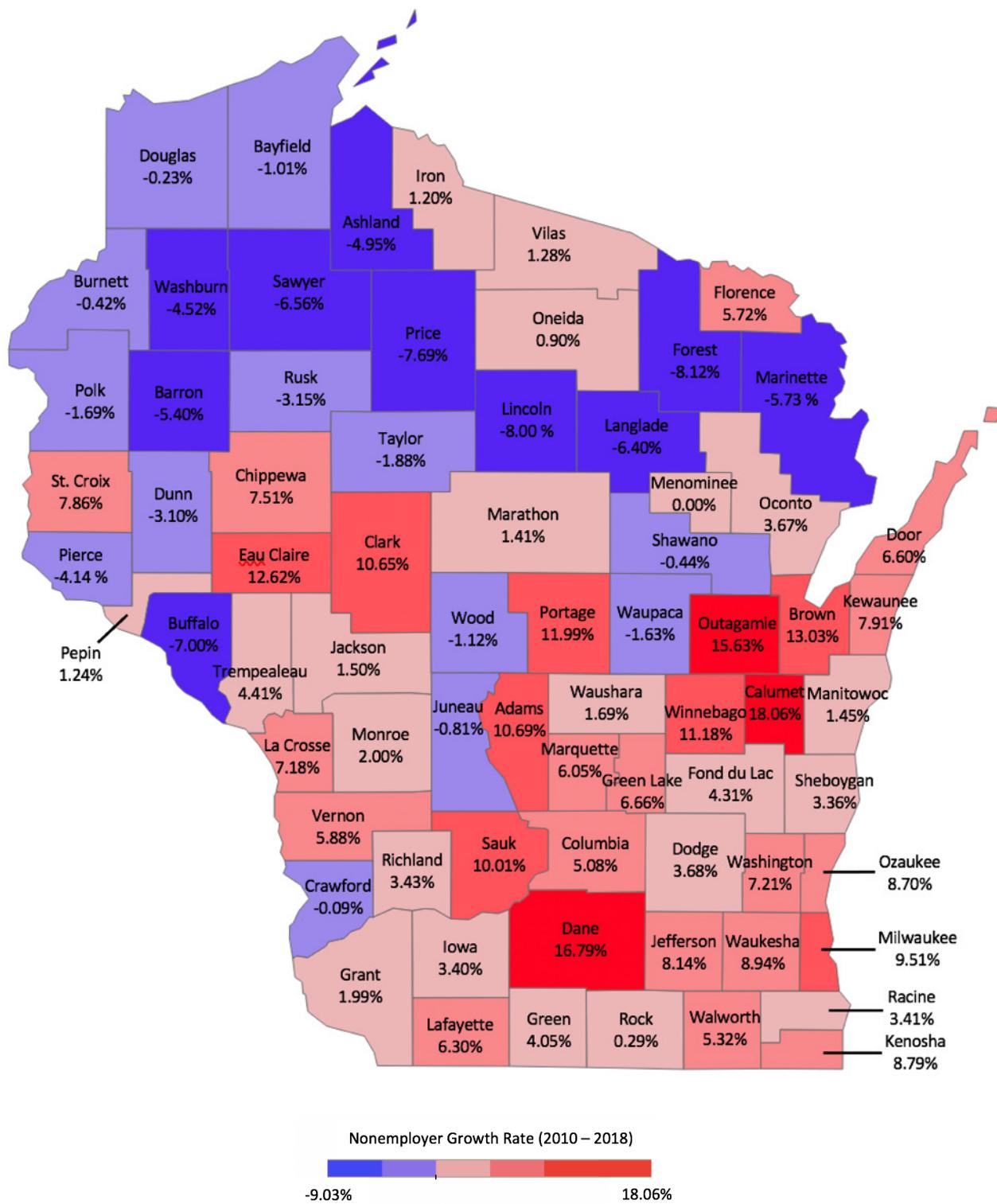


Population could be a key factor in explaining urban business growth. Specifically, urban counties are relatively more diverse than rural counties in Wisconsin. To the extent that people of color have a higher propensity for starting nonemployer businesses, larger populations of diverse residents in urban areas may explain the dramatic growth of nonemployer businesses.

Indeed, looking by county, the more populous parts of the state have had more growth of nonemployer establishments as shown in Figure 3. The red hues indicate positive growth rates, or "hot spots" for nonemployer growth while the blue hues indicate negative growth rates. The counties with negative growth in blue are generally located in more rural areas, particularly northern Wisconsin. The southeastern counties generally had larger growth with Calumet, Dane, and Outagamie having the largest change—all three of which rank among the more diverse in the state.

<sup>6</sup> Authors' analysis of the 2010 and 2018 CBP and NES data.

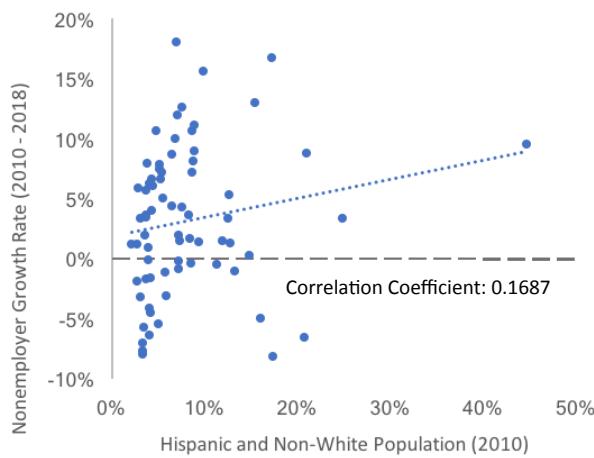
**FIGURE 3: COUNTY-LEVEL GROWTH RATE OF NONEMPLOYER ESTABLISHMENTS OF WISCONSIN, 2010-18**



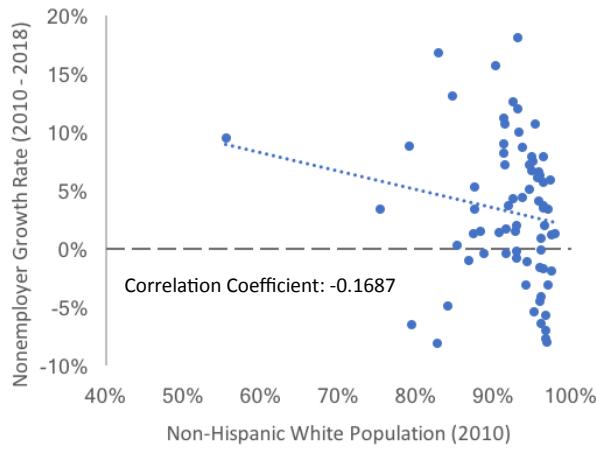
## Nonemployer Growth and Diverse Populations

To better understand the rise of nonemployers, we look at how the diversity of different counties relates to the growth of these establishments. First, we look at the overall racial and ethnic diversity for Wisconsin<sup>7</sup>. As seen in Figure 4, there is a positive relationship between the total non-white or Hispanic population of a county and its nonemployer growth<sup>8 9</sup>. These results suggest that racial and ethnic diversity positively influences the growth of a county's nonemployer establishments. Second, this relationship is unique to Wisconsin's minority populations. When we consider the complementary relationship for the state's nonminority population of non-Hispanic white residents, there is no positive effect. In fact, as presented in Figure 5, a larger non-Hispanic white population is associated with lower nonemployer business growth. In sum, these figures suggest a connection between the rise of nonemployer businesses and the area's ethnic and racial diversity.

**FIGURE 4: NONEMPLOYER GROWTH RATE AND HISPANIC AND NON-WHITE POPULATION FOR ALL WISCONSIN COUNTIES<sup>A</sup>**



**FIGURE 5: NONEMPLOYER GROWTH RATE AND NON-HISPANIC WHITE POPULATION FOR ALL WISCONSIN COUNTIES<sup>A</sup>**



<sup>A</sup> Analysis excludes Menominee. See footnote 8 for discussion.

Statistical significance of correlation coefficient indicated by \*p<.1, \*\*p<.05, \*\*\*p<.01.

<sup>7</sup> In this analysis, we used the 2010 5-year American Community Survey for information about the racial and ethnic demographics of Wisconsin's counties. For each race, we used the estimate of those who identify only as "one race." When we did the analysis with Wisconsinites who identify as multiple races, the results were not significantly different. In addition to the insubstantial change between the two analyses, 98.3% of Wisconsin residents identified as one race in 2010. Also, although race and ethnicity are not mutually exclusive categories, we used the estimate of Wisconsinites who identify as either Hispanic or non-white (or both) as our measurement of a county's diversity.

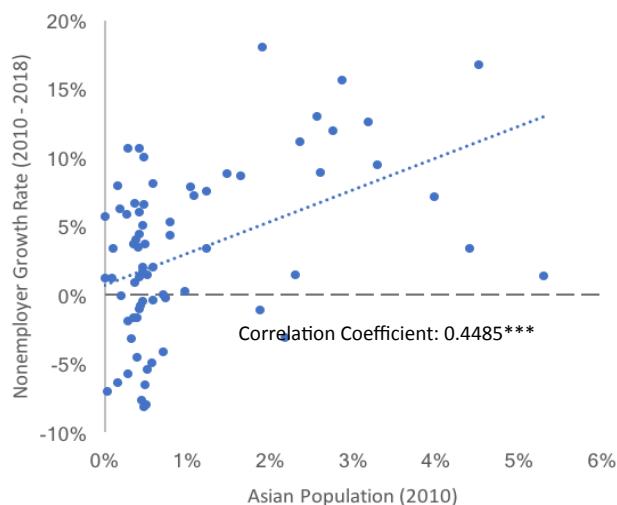
<sup>8</sup> In this analysis, we excluded Menominee county as it is an extreme outlier due to it having the largest American Indian population in state--86% of the county is American Indian as of 2018. Additionally, the number of nonemployer businesses in the county is very low at 105 businesses, which did not change from 2010 to 2018.

<sup>9</sup> In Figures 4 and 5 there is some evidence of outliers, counties to the far left or far right that may drive the relationship. Supplemental analysis without these counties indicate that the relationships discussed still hold.

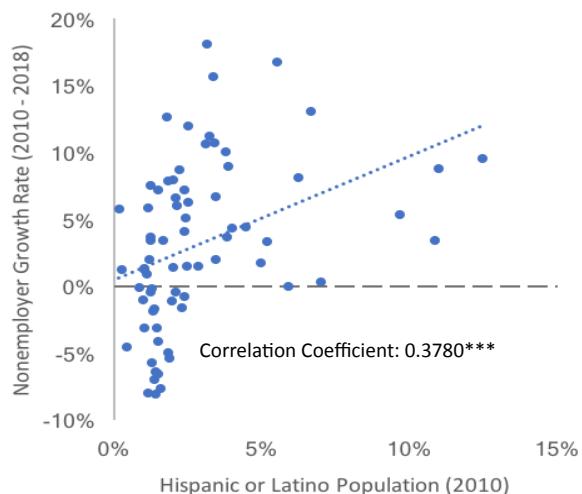
Given the positive relationship between the non-white population and the rise of nonemployers, we further disaggregate the diverse population to look at more specific racial and ethnic groups. We first consider ethnicity, namely the relationship between the Hispanic and Latino share of the population in a county and the nonemployer growth rate.

Illustrated in Figure 6, there is a significant positive relationship between the two variables, which suggests that a county's ethnic diversity specifically in terms of its Hispanic and Latino population positively influences the growth of the county's nonemployer businesses. According to state-level data measuring the demographics and sector breakdown of nonemployers in Wisconsin, the largest sectors for Hispanic-owned nonemployer businesses are construction, transportation and warehousing, and other industries that offer a variety of services such as trade contractors, drivers of passenger vehicles or trucks, personal care and laundry services among others<sup>10</sup>.

**FIGURE 7: NONEMPLOYER GROWTH RATE AND ASIAN POPULATION FOR ALL WISCONSIN COUNTIES**



**FIGURE 6: NONEMPLOYER GROWTH RATE AND HISPANIC POPULATION FOR ALL WISCONSIN COUNTIES**

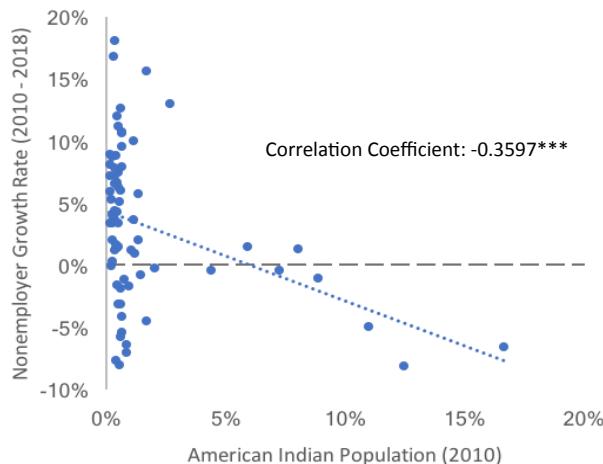


Next, we consider the largest racial groups in Wisconsin, specifically Asian, Black and African American, and American Indian. Starting with the share of a county's population that is Asian American, in Figure 7, we show a significant positive relationship with the nonemployer growth rate. This result further suggests that the proportion of specifically Asian residents in a county positively impacts the county's nonemployer growth. Similar to Hispanic-owned nonemployer firms, data about the largest sectors for Wisconsin's Asian-owned nonemployers suggest that these businesses are likely to be in the transportation and warehousing sector as drivers of passenger vehicles and other sectors offering an assortment of services such as laundry and dry cleaning, personal care, legal assistance, consulting services, and computer systems support.

10 Authors' analysis of 2017 NES-D

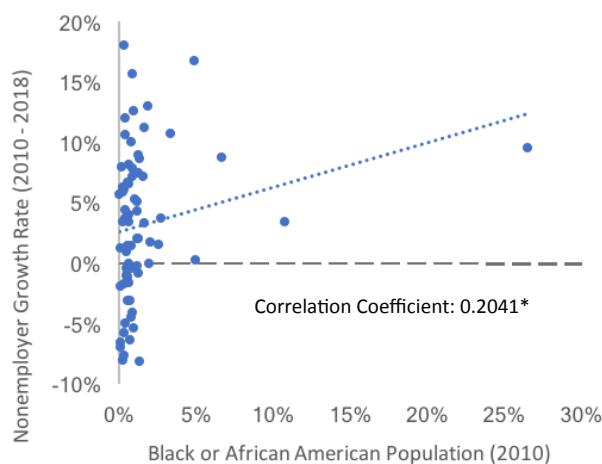
Next, we look at the Black and African American population of Wisconsin counties in relation to nonemployer growth rates. As seen in Figure 8, there is a significant positive relationship between the two variables, yet the point farthest to the right representing Milwaukee could be perceived as an outlier as it looks extreme compared to the other data. Milwaukee is distinct from the other counties since it has the highest Black and African American population by far at over 26% of the county. The large difference between Milwaukee and other counties in the state could mean that Milwaukee skews the results. Further analysis without Milwaukee yields another significant positive relationship, which although weaker, supports the initial result suggesting that the Black and African American population of a county positively impacts the nonemployer businesses of the area. The largest sectors for Black-owned nonemployer firms are transportation and warehousing and other service industries offering health care and social assistance services as well as personal and laundry services. Examples of nonemployers within these sectors are drivers of passenger vehicles, such as taxi or Uber drivers, firms offering ambulatory health care services, and individuals who provide social assistance services, like residential health aid or support for children and families.

**FIGURE 9: NONEMPLOYER GROWTH RATE AND AMERICAN INDIAN POPULATION FOR ALL WISCONSIN COUNTIES, EXCLUDING MENOMINEE<sup>A</sup>**



<sup>A</sup> Analysis excludes Menominee. See footnote 8 for discussion.

**FIGURE 8: NONEMPLOYER GROWTH RATE AND BLACK OR AFRICAN AMERICAN POPULATION FOR ALL WISCONSIN COUNTIES**



<sup>A</sup> Analysis excludes Menominee. See footnote 8 for discussion.

Lastly, we look at the relationship between a county's population of American Indians of all tribes and its nonemployer growth rate<sup>11</sup>. In Wisconsin, less than 1% of the population identifies as American Indian alone. We find that there is generally a significant negative relationship between a county's American Indian population and the county's nonemployer growth rate as represented in Figure 9. State-level data about nonemployers shows that the largest sectors for American Indian-owned firms are construction, retail trade, and other services.

These firms can look like self-employed individuals selling their own products or contracting out their services, such as specialty trade construction, personal and laundry services, and professional and technical services like legal, computer systems, and design assistance.

11 Menominee excluded. See footnote 8 for discussion.

This inverse relationship between the American Indian population highlights that while racial and ethnic diversity is generally associated with nonemployer growth there is important variation across racial and ethnic groups. It also draws attention to potential barriers and cultural differences that need to be considered when developing and supporting equitable paths to entrepreneurship. In a study focused on American Indian business owners in Wisconsin, there is evidence that exposure to entrepreneurship, business knowledge, educational attainment, tribal and government policies which give preference to American Indian businesses, the ability to take risks while facing the lack of capital, and supportive relationships between the owners and their families and communities all facilitate entrepreneurship (Erdmann 2016)<sup>12</sup>.

It's also important to note that higher growth of nonemployer establishments doesn't necessarily amount to more nonemployer firms. Supplementary analysis shows that diverse populations are both correlated with fewer nonemployer businesses per capita in 2018 as well as high growth as shown in the above graphics. Keep in mind that people of color are still a relatively small share of the population in Wisconsin, so even though this segment of the population may be especially entrepreneurial leading to high growth of nonemployers, the overall level of nonemployer businesses may still be low even in places with larger-than-average diverse populations.

## Conclusion

In sum, these relationships and state-wide trends suggest a connection between the rise of nonemployer businesses and counties with larger populations of ethnically and racially diverse residents<sup>13</sup>. The significant positive relationships between an area's diversity and nonemployer growth support the idea that minority entrepreneurship is critical for Wisconsin's economy. Nonemployer businesses are an important source of income at least for the owners themselves and they can go on to create more jobs when they grow and hire employees, an especially important consideration as the growth of employer businesses seems to have stalled in Wisconsin.

Despite the concentration of nonemployer growth in urban areas, nonemployer businesses are significant for economies all across Wisconsin. Since the Great Recession's end in early 2010, the number of employer businesses declined in rural areas. Therefore, the relatively small uptick in nonemployer businesses in nonmetropolitan areas is fundamental to rural economies because they are the only source of growth in the business community. Considering this, nonemployers are increasingly important for Wisconsin as they greatly increase in more populated, diverse areas of the state and drive much of the limited business growth in the state's rural areas.

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12 In other literature addressing American Indian entrepreneurship, there is another theory that tribes hold more collectivist attitudes which would limit entrepreneurial pursuits as they are more individualist by nature. However, there is debate around the theory as some argue that it doesn't address the long standing economic effects of European colonization nor does it account for differences among tribal communities and their separate values and ethics.

13 Due to the change in methodology for the Census dataset which reports the demographics of business owners, we were unable to analyze the specific demographic changes of nonemployer ownership throughout Wisconsin between 2010 and 2018. Therefore, we cannot identify communities in a county which drove the growth of these small businesses from census data.

Given that this analysis looked at the change over time for the period between 2010 and 2018, the impact of COVID-19 on nonemployer businesses are not accounted for in the analysis. It will be years before nonemployer data for 2020 are available. As the pandemic takes an economic toll on businesses across the country, particularly smaller establishments with less capital and those owned by people of color, Wisconsin's nonemployers are vulnerable to the pandemic's damaging effects (Conroy et al. 2020). Both now during the pandemic and as we recover, the success of nonemployer businesses is vital as they offer paths for Wisconsinites to contribute to the success of their communities' economies, particularly in areas with higher non-white or Hispanic populations.

Communities can strategically support nonemployer growth throughout Wisconsin, particularly in ethnically and racially diverse areas. For example:

- Small business support programs can be made available and tailored to those without employees which may mean, for example, considering the needs of home-based businesses and offering services in multiple languages.
- Partnering with ethnic and diverse business chambers and community development financial institutions can be an important avenue to reach these relatively underserved audiences.
- Expanded technical assistance and loan programs with fewer barriers such as criteria and requirements that disproportionately impact business owners of color can all be important steps towards realizing the economic benefits of small and diverse businesses.

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