

# Kentucky County Small Business Profiles

## McLean County

2016



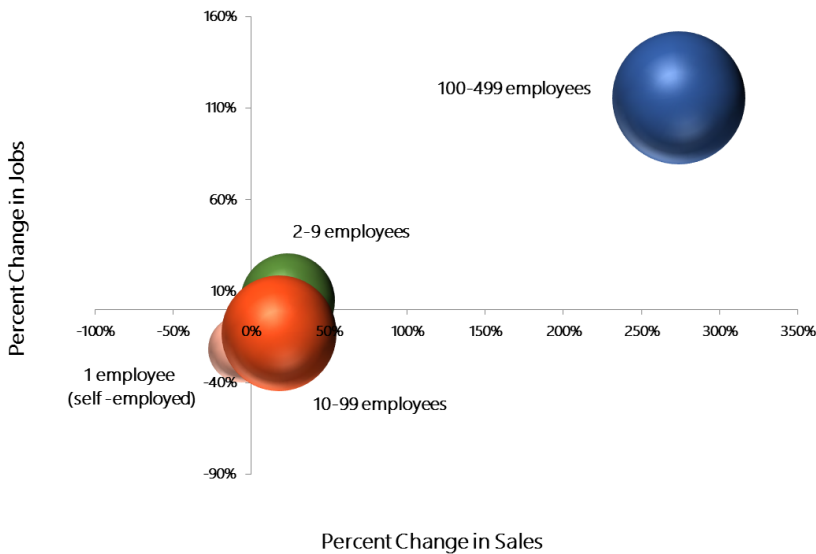
**Small businesses with less than 20 employees constitute 95.8% of all businesses and employ 69.3% of all employees in McLean County.**

Definitions vary on the term "small business." According to the U.S. Small Business Administration, small businesses can range from businesses that are solely owner-operated with no employees to businesses with up to 500 employees. However, most agree that small businesses are a vital part of a local economy.

Payroll and Employment by Firm Size, 2015

Employment Size	Number of Firms	Total Employment	Average Annual Payroll per Firm (\$1,000)	Average Annual Payroll per Employee
0	517	--	--	--
1-20	121	521	\$12,958	\$24,871
20-99	9	210	\$9,313	\$44,348
100-499	4	21	\$761	\$36,238

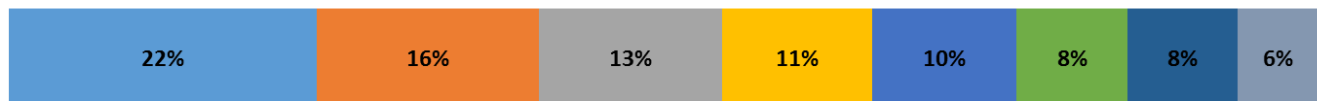
*U.S. Census/Non-Employer Statistics, 2015*



The top right quadrant represents firms that have increased their sales and the number of employees. The bottom left quadrant shows declining sales and employment. Typically larger firms change at a slower pace than smaller firms.

*YourEconomy, 2015*

Share of Small Business Employment for Top Industries\*, 2015  
Firms with 1 to 50 Employees



- Retail Trade
- Accommodation & Food Services
- Other Services (except Public Administration)
- Health Care & Social Assistance
- Construction
- Finance & Insurance
- Manufacturing
- Transportation & Warehousing

\* Includes only industries with more than 5% share of total employment

*U.S. Census/Longitudinal Employer-Household Dynamics, 2015*

### Microenterprises

Total Microenterprises	618
Total Employment in Microenterprises	785
Microenterprise Share of Total Private Non-Farm Employment	38.4%
Microenterprise Share of Total Number of Businesses	92.8%

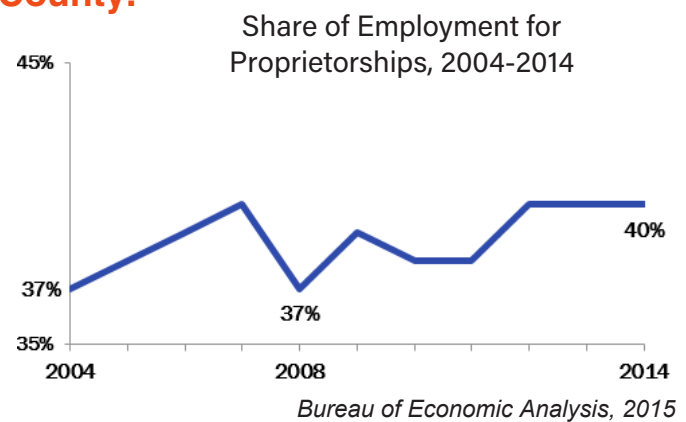
*Association for Enterprise Opportunity, 2014*

A **microenterprise** is any firm with 0 to 5 employees. Even though each microenterprise only employs a few people, they represent a significantly large portion of total number of businesses in Kentucky.

### 72.5% of firms were unincorporated (proprietorship) businesses in McLean County.

An **incorporated business** (or corporation) is owned by shareholders, offers limited liability, and can sell equity to finance expansion.

An **unincorporated business** (or proprietorship) is privately owned by one person or multiple partners and does not have the ability to sell equity.



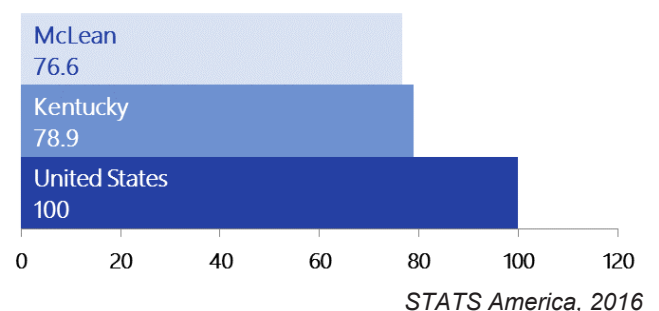
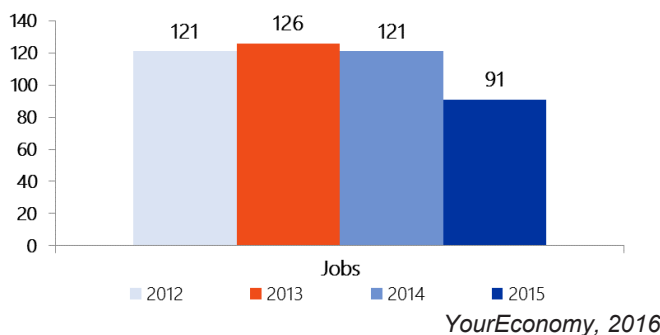
	Number of Firms	Employment		Median Earnings	
		Male	Female	Male	Female
Incorporated businesses (or corporations)	140	77.1%	22.9%	\$22,361	\$24,286
Unincorporated businesses (or proprietorships)	369	71.8%	28.2%	\$40,139	\$20,000

*American Community Survey 5-Year Estimates, 2009-2015*

### In McLean County, the share of employment from unincorporated businesses changed from 36.7% in 2004 to 39.8% in 2014.

New **startups** represent a subset of total new businesses in the county and are an indicator of innovation and growth in the economy.

The **Innovation Index** measures the innovation capacity of a county relative to the state and the nation.



The data in this profile were prepared by the Community and Economic Development Initiative of Kentucky (CEDIK) at the University of Kentucky. For questions on the data contained in this profile contact Simona Balazs, Research Associate, at 859.218.5764 or [simona.balazs@uky.edu](mailto:simona.balazs@uky.edu). Special thanks to Joe Kercksmar and Shaheer Burney for their work on this profile.



Prepared by Simona Balazs, CEDIK Research Associate

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CEDIK's Small Business Profile consists of several tables and graphs, which seek to characterize small business by firm size, industry, business type, and startups. This document provides detailed information on each and may be used as a tool to assist in interpretation.

Throughout this profile, small business is defined in several ways due to the lack of a standard definition for "small business" in the variety of federal and private data sources used. The definition of small business used is listed alongside the table or graph. The motivation for using different definitions for small business is that whether a business is considered "small" depends on a variety of factors, including the industry that the business operates in, the total size of the market, sales revenue, etc. For example, a manufacturing business that employs 50 workers might be considered a small business, while a retail store with the same employment size might not.

### **Small Businesses by Firm Size**

Most of the first page is dedicated to characterizing small businesses based on firm size. The top-right table shows number of firms, total employment, and average annual payroll by firm and employee. An employment size of "0" indicates self-employed individuals running their own business who have not hired any paid employees. These businesses are commonly known as "mom and pop" stores and may be managed by one or more family members, each of whom is part owner of the business. This category typically includes small bakeries, retail stores, and even small farms.

The bubble chart in the middle of the page plots the percent change in sales with the percent change in jobs between 2011 and 2015. Each bubble represents a different category of employment size for county businesses, and the size (i.e., area) of each bubble corresponds with the share of county employment coming from those businesses. Thus, the largest bubble is the category that employs the most people in the county. If a particular category employs no one, then the bubble does not appear.

Typically, we expect firms with increasing sales to hire more workers (top-right quadrant) and firms with declining sales to reduce their workforce (bottom-left quadrant). Firms in the top-left and bottom-right quadrants can be considered in transition. Firm behavior

also depends on other factors, such as the nature of the firm's product, firm age, industry classification, etc. For example, large firms tend to experience small percentage changes in sales and employment, so we expect their bubble to be closer to the center of the chart, where the percent change is small for both jobs and sales. On the other hand, smaller firms usually experience high rates of growth and thus will be farther away from the center of the chart. The presence of high growth firms is generally an attribute of a robust economy.

### **Small Business Employment for Top Industries**

The first page of the profile ends with a bar chart of the share of small business employment for the top industries (industries where small business employment exceeds 5%). Percent employment for each industry is shown on the bar chart and the legend underneath lists the top industries. The classification of industries is based on the 2-digit NAICS codes. Because share of employment is different for every county, industries may vary by county, though many counties have high levels of employment in similar industries. Please note that including businesses with smaller employment size might leave out important industry sectors such as manufacturing, simply because a typical small manufacturing business might employ a larger workforce than a typical small retail store.

### **Small Business Employment by Business Type**

The second page of the profiles starts with a table looking at number, employment and share of microenterprises. There is an important distinction to be made between "micro" businesses and small businesses. We define microenterprises as those that employ 5 or fewer employees. Most "mom and pop" and startup companies in the initial stage fall under this category. Taking note of the county's microenterprises is important, because even though their contribution of total employment is generally small, they constitute a striking proportion of total businesses in the economy. Additionally, one can compare the number of microenterprises with the number of firms with "0" employment size in the first page of the profile. For most counties, these numbers suggest (though they come from different data sources), that the majority of microenterprises are those self-employed individuals who have yet to hire paid employees.

The middle section of the second page of the profile looks at employment and earnings for incorporated and un-incorporated businesses. An incorporated business is one that is legally recognized as a separate entity from the owner and is owned by shareholders. This allows owners to have limited liability; that is, the owner cannot be made liable for any debt of the business over and above the owner's investment in the business. Incorporated businesses have the ability to sell equity (stocks) to raise funds for investment. An incorporated business is also known as a corporation. In contrast, unincorporated businesses include sole proprietorships (owned and managed by one individual), partnerships (multiple owners and managers), and tax-exempt cooperatives (owned and managed by users of the business's services). They do not have limited liability and cannot sell equity to the general public. An unincorporated business is also known as a proprietorship.

This section provides information on share of employment from proprietorship between 2004-2014 (the middle-right line graph) and employment and median earnings by sex for corporations and proprietors. It is important to note that proprietorships (i.e., unincorporated businesses) can have multiple employees, regardless of the number of owners and managers. Typically proprietorships employ fewer people but are more common relative to corporations (i.e., incorporated businesses).

The line graph shows employment in proprietorships as a share of total employment. Total employment in proprietorships includes managers and other employees. The trend of this line graph varies significantly between different counties, though several experience at least a small decrease in 2008 as a result of the economic recession.

Furthermore, the table is significant in that it is the only part of the profile that looks at small business employment and earnings by gender. In most counties, it seems that the vast majority of employees in these small businesses are men and those men, on average, make more than their female counterparts. Explanations for this discrepancy may include gender differences between risk-taking preferences, education, and average earnings for a given county.

## **New Startups and Innovation**

The final section of the profile looks at startups and the innovation index. Startup companies are instrumental for innovation and are an indicator of a growing economy. The bottom-left bar graph shows jobs created by new startups each year between 2012 and 2015. It is important to note that a startup is defined as a new business that was created in that given year. Therefore, the graph depicts the number of jobs from new startups in the county.

Finally, the bottom-right graph illustrates the Innovation Index, a tool developed by researchers and sponsored by the U.S. Economic Development Administration. The index measures a region's innovation activity and capacity by using four major indicators: Human Capital, Economic Dynamics, Productivity and Employment, and Economic Well-Being. Human Capital takes into account the educational attainment of residents, the population growth rate, the types of occupational mixes, and employment in high-technology firms. Economic Dynamics include measures for investment in venture capital, availability of broadband internet, firm entry and exit in the economy, and business size. Productivity and Employment reflects growth of high-tech employment, job growth relative to population growth, patent activity, and current level and growth of the county's GDP. Finally, Economic Well-Being is based on the poverty rate, unemployment rate, migration patterns, worker wage/salary, and growth in income per capita. The four indicators are weighted to reflect their contribution to innovation activity. Human Capital, Economic Dynamics, and Productivity and Employment are weighted 30% each while Economic Well-Being is attributed 10%. Innovation is important because it can be found behind every successful startup and growing small business, and therefore is important for the economy.

Still have questions?

If you have further questions regarding the data in this profile, please contact CEDIK Research Associate Simona Balazs at (859) 218-5764.