

Income Patching among Microentrepreneurs

Since the Great Recession, interest has grown in microenterprise development's role in creating jobs and supporting economic recovery. Although research by FIELD has documented that microbusinesses that receive assistance from microenterprise development organizations do create jobs – 2.9 per business on average, including the owner¹ -- there is another way in which microenterprise development supports families: as an income supplement that increases overall household income and mitigates risk as the owner maintains paid employment. This *Trendlines* publication explores this livelihood strategy, known as patching, based on data from a survey of clients from 23 microenterprise programs. Its findings include the following:

- **Patchers have higher personal incomes** than clients who derive income solely from self-employment; however, the total household incomes of patchers are similar to those who engaged solely in self-employment.
- **Patchers work significant numbers of hours**; sixty-four percent work full-time at their business or their job in addition to their secondary source of employment.
- **Patchers are more likely to have health insurance** than those who only work in their business. This is because more than half have insurance through their wage jobs.
- **Almost one-third of patchers create additional jobs** in their businesses. The average wage paid in these jobs is \$15.70 per hour and 47 percent are full-time.

Patching is defined as a strategy through which individuals combine employment and self-employment to generate earnings and contribute to their households. Earliest studies on the experience of U.S. microentrepreneurs identified the

Methodological Summary:

- Through the microTracker program microenterprise programs annually conduct a survey of the business, household and individual outcomes of microenterprise clients.
- The survey includes information about the client when entering the microenterprise development organization (MDO) and the client's status approximately one year after receiving services.
- Only clients, those who received significant services from the MDO (training, loan, grant, etc.), are eligible to participate in the MicroTest Outcomes Survey.
- Only clients who received services in 2009 were eligible to be surveyed about their outcomes in 2010. The survey was conducted in 2011.
- Surveys were conducted in person, by telephone, by mail, and on-line.
- While this fact sheet presents longitudinal information on changes achieved by clients and businesses, there are no claims of causality or reporting of the net benefits of the microenterprise development organizations because there is no comparison group data. There is evidence, however, that clients found value in program participation, and that the information and skills they received were used to run their businesses. As a result, it is likely that at least some of the changes observed are attributable to the services they received.

Diagnostics:

- 60 percent Response Rate
- 1,514 Completed Interviews
- 23 Participating MDOs

¹ FIELD. (October 2011). *MicroJobs Fast Facts*. Washington, D.C.: The Aspen Institute. Retrieved January 15, 2013, from <http://fieldus.org/Publications/TrendlinesMicroJobs2pg.pdf>

practice of patching, which continues to be used by a substantial portion of microenterprise program clients. Many households may have multiple sources of income generated by their members, but patching specifically refers to *individuals* who hold multiple jobs -- that of paid worker and business owner – and seek to earn money from both. Difficult as it may seem to operate a business and hold a job, many entrepreneurs choose this path as either a short- or long-term strategy to support their families. Among 1,198 business owners surveyed in 2011 by 23 microenterprise programs, 37 percent were income patchers. Their experience differs from those who pursued self-employment full-time, and it is worth taking a closer look at this group of patchers to understand this phenomenon and why people may pursue this approach.

Income patchers are similar socio-economically to other microentrepreneurs

When they first sought microenterprise program assistance, patchers were as likely as those solely engaged in running their business (referred to in this paper as “non-patchers”) to be female, a member of a disadvantaged ethnic or racial group, or part of a low-income household. They were more likely however, to come to programs seeking help in starting a new business, rather than in running an existing enterprise. By the time of the follow-up survey, patchers were less likely than non-patchers to have received a loan; this is not surprising, as businesses in their earliest months of operation are less well positioned to access financing.

**Table 1: Demographics and Business Status:
Comparison between Patchers and Non-Patchers**

	Patchers	N=	Non-Patchers	N=	Test
Received a Loan (from programs that offer loans)*	71%	309	84%	577	Significantly Different
Business at Intake	66%	423	76%	684	Significantly Different
Female	61%	441	56%	720	Not Significant
Ethnic or Racial Minority	55%	425	61%	618	Not Significant
Household income below 150% HHS at Intake	32%	385	33%	513	Not Significant

***Clients at programs that do not offer loans are not included in the calculation.**

Income patchers have higher personal earned income

At the time of the follow-up survey, patchers reported significantly higher earned income from their combined wages and owner's draw than those with earnings from only a business or job. Although the effort expended by patchers managing multiple income activities is not to be discounted, the multiple income streams provided higher total earnings than for those clients with a single source of personal income, be that a business or a wage job.

Table 2: Earnings at Job, Business: Comparison between Patchers and Non-Patchers		
	Patching at Survey	Wage Job Only or Business Only at Survey
Mean*	\$33,444	\$26,295
Median	\$30,400	\$21,000
Minimum	\$60	\$0
Maximum	\$187,000	\$250,000
N	319	716
Test (Means*)	Significantly Different	

Income comes primarily from employment

Income patchers draw most of their personal earnings from their wage jobs rather than their businesses. For those just starting their businesses, this is not a surprise, but for those who are long-term patchers, it suggests that they have determined that the business can or should play only a secondary role in their economic portfolios. Interestingly, when earnings from wage employment for patchers are compared to those of program clients solely engaged in wage employment at the time of the survey (in other words, clients who had closed or chosen not to start a business), there was no significant difference in the level of earnings.

Table 3: Earnings at Job: Comparison between Patchers and Non-Patchers					
	Patchers	N=	Non-Patchers	N=	Test
Median Employment Earnings	\$21,250	362	\$25,000	154	<u>Not</u> Significantly Different

Patchers and non-patchers have similar household incomes

Even though patchers generate less money from their businesses than those who work solely on their enterprise, their overall household incomes are similar to those of non-patchers. This indicates that patchers may contribute more to their households than non-patchers. This personal financial strength, and the independence it provides, may be important to patching individuals. Although data are not available to explore changes in personal earnings, median household incomes rose 28 percent for patchers versus 16 percent for non-patchers.

Table 4: Household Income: Comparison between Patchers and Non-Patchers					
	Patchers	N=	Non-Patchers	N=	Test
Mean Household Income	\$51,504	289	\$52,364	490	<u>Not</u> Significantly Different
Change in Mean Household Income from Intake to Survey	28%	258	16%	488	

A high percentage of patchers moved out of poverty

Rising household incomes allowed 84 percent of patchers who were in poverty at intake to move above the federal poverty line by the time of survey. In comparison, 70 percent of non-patchers in poverty at intake had moved above the poverty line by survey.

Table 5: Movement out of Poverty: Comparison between Patchers and Non-Patchers				
	Patchers	N=	Non-Patchers	N=
Moved out of poverty by survey	84%	44	70%	87

Patchers' businesses are small, but growing

Although the size of patchers' businesses (measured in terms of revenues) was quite small compared to non-patchers, they reported increased revenues by survey. The median revenue for patchers grew 30 percent between intake and survey and the mean revenue grew 43 percent.

Table 6: Change over Time for Revenues and Owner's Draw: Comparison between Patchers and Non-Patchers				
	Revenues		Owner's Draw	
	Patchers	Non-Patchers	Patchers	Non-Patchers
Median at Intake	\$11,568	\$45,576	\$1,298	\$12,153
Median at Survey	\$15,000	\$68,400	\$4,500	\$21,500
% Change	30%	50%	247%	77%
Mean at Intake	\$36,796	\$107,121	\$9,226	\$20,051
Mean at Survey	\$52,517	\$181,481	\$9,911	\$26,556
% Change	43%	69%	7%	32%
N=	173	317	183	288

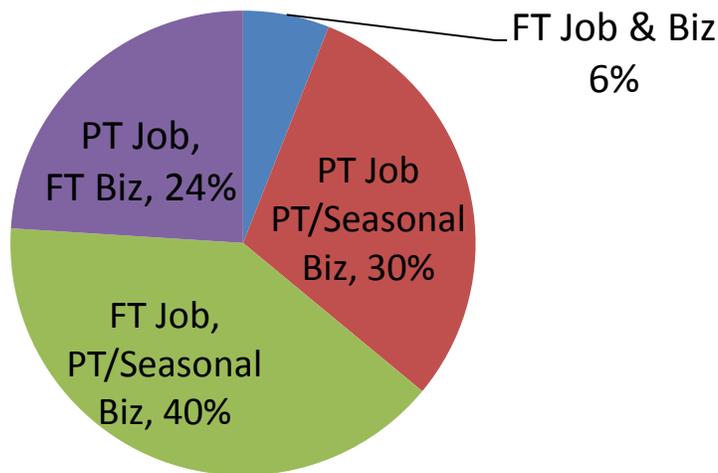
The data also show a statistically significant difference in the revenues of patcher-owned firms that were three or more years old, compared to those that were less than a year old – again suggesting that these firms grow over time.

Table 7: Mean Revenues at Survey: Comparison between Patchers with Older Businesses and Younger or No Businesses at Intake					
	Had Business for More Than 3 Years at Intake	N=	No Business or In Business for Less than 1 Year at Intake	N=	Test
Mean Revenues at Survey	\$52,484	81	\$22,233	174	Significantly Different

Income patchers are hard workers

The majority of patchers, 64 percent, are working full-time at one income-generating activity and part-time at another. Another six percent work full-time at both their job and business. Only 30 percent work part-time at both their business and job.

Figure 1: Frequency of Work, Business Operation



Patchers are more likely to have health insurance

Significantly more patchers, 66 percent, reported having health insurance than non-patchers, 57 percent. Fifty-two percent of patchers reported having health insurance provided by their employment, with only seven percent reporting having insurance through their business. As long as health insurance is connected to work, some entrepreneurs will likely want to maintain their wage jobs as a means to access health coverage.

Patchers create (some) jobs

Perhaps most surprisingly, some patchers created paid work for others even as they themselves worked part-time at their businesses. One third reported having paid workers, and they paid median hourly wages that were significantly higher than those paid by non-patchers. While the majority of these jobs provided by patchers were part-time, 47 percent were full-time (at least 35 hours a week.)

Table 8: Paid Workers: Comparison between Patchers and Non-Patchers					
	Patchers	N=	Non-Patchers	N=	Test
Have Paid Workers	31%	412	51%	696	Significantly Different
Paid Workers Mean Hourly Wage	\$15.70	256	\$13.40	824	Significantly Different
Mean # of Paid Workers	1.2	412	2.3	696	Significantly Different

Conclusion

These findings show that microenterprise development supports entrepreneurs pursuing a variety of household economic strategies. Job creation is an important challenge in a post-recession economy, and, as such, it makes sense to support microenterprise development for its job-creation effects. However, microenterprise programs also assist patchers who combine self-employment with wage jobs. Although some of these businesses create jobs for others, it seems that their most important benefit is to supplement personal and family income. This strategy is important, and worth supporting, given the challenges that individuals at the bottom of the labor market find in securing jobs that pay wages that can support a family. For the lowest-income individuals, pursuing a patching strategy appears to be critical in raising household income above the poverty line. For this reason, policy makers and funders should consider investing in microenterprise development for its income as well as its job-generating effects.