

Office of Economic Research

Research Publications 2007

January 2008

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Office of Economic Research



Research Publications 2007

Office of Advocacy
U.S. Small Business Administration
Washington, D.C.
January 2008

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Foreword

Each year, the Office of Advocacy of the U.S. Small Business Administration is tasked with documenting the importance of entrepreneurship to the American economy and with highlighting policy issues of relevance to small firms. This report summarizes the publications produced by the Office of Advocacy's Office of Economic Research in 2007.

Many of the reports in 2007 reaffirmed the significance of the small business owner in the American economy. First among these was a report released in February by Donald Bruce, John Deskins, Brian Hill, and Jonathan Rork. The authors found that the small business establishment births factor is most important in determining gross state product, state personal income, and total state employment. They concluded their work with the following statement: "... our results indicate that the most fruitful policy option available to state governments is to establish and maintain a fertile environment for new establishment formation." In addition, Kathryn Kobe of Economic Consulting Services confirmed that the small business share of private, nonfarm gross domestic product remains around 50 percent, which is similar to the finding of previous reports on this topic.

Along those lines, the Office of Advocacy released several studies that examined regional economic development issues. Whitney Peake and Maria Marshall wrote in January that certain state expenditures, particularly investments in human capital and roads, affected the number of new businesses. In March, Robert Fairlie examined entrepreneurship in the Silicon Valley relative to the rest of the United States. Furthermore, Lawrence Plummer examined the competitive dynamics of new firm entrants into a local market in his working paper, which was released in February.

We also benefited from the release of data from the U.S. Census Bureau's Survey of Business Owners (SBO) for 2002. In April, the Office of Advocacy released *Minorities in Business: A Demographic Review of Minority Business Ownership*, a follow-up to the August 2006 release of our report on women-owned businesses. Both were drafted by Ying Lowrey. In addition, the annual *Small Business Economy* volume, which was released in December, featured a long-awaited discussion of veteran and service-disabled veteran business ownership by Jules Lichtenstein and Joseph Sobota. Each of these reports relied heavily on the 2002 SBO data and other sources.

Other reports dealt with owner demographics as well. In January, Open Blue Solutions examined self-employment trends among veterans and service-disabled veterans, and I

wrote a working paper in December finding that the self-employed tend to have attained higher levels of education, to own their own home, and to have served in the military. As with other studies on this topic, I also found that the self-employed are more likely to be older, white, married, Internet-savvy, and rural. Erin Kepler and Scott Shane in September observed that among nascent entrepreneurs, gender did not affect new venture performance; however, there were several factors—such as differing expectations, reasons for starting a business, motivations, opportunities sought, and types of businesses—that vary from men- to women-owned businesses.

Continuing our recent tradition, *The Small Business Economy* features two chapters by external sets of authors—Andrew Wolk on social entrepreneurship and William Gartner and Jianwen (Jon) Liao on the importance of pre-venture planning. We hope that these chapters serve as a springboard for additional research and discussion.

Other studies released in 2007 are worthy of mentioning. Karl Wennberg, Timothy Folta, and Frederic Delmar, in their working paper released in June, found that many people enter into self-employment gradually, and Brian Headd and Bruce Kirchoff observed various "stylized facts" from the U.S. Census Bureau's firm size data, including the conclusion that growing firms are generally a constant share of the economy. Two papers focused on employment benefits—one by Econometrica and the other by John Hope and Patrick Mackin of SAG Corporation. Both of these studies found that small businesses are less likely to offer benefits to their workers, and the offering of such benefits improves employee retention.

In putting the research publications for 2007 together in this "catalog," we are providing our constituents with a snapshot of our research efforts during the calendar year. Keep in mind that all of the Office of Advocacy's research—including both before and after 2007—can be found online at <http://www.sba.gov/advo/research>. For regular updates on our research as it is released, please join Advocacy's research listserv, which can be found at <http://web.sba.gov/list>. We appreciate your interest in small business.



Chad Moutray, Ph.D.

Chief Economist and Director
Office of Economic Research

Contents

- Forewordiii

- Office of Economic Research, Research Publications 2007 1
 - Banking and Financial Issues 1
 - General Small Business and Entrepreneurship 5
 - Human Capital and Employment Benefits 9
 - Innovation and Technology 11
 - Owner Demographics 12
 - Procurement 13
 - Regional Economic Development 14
 - Regulation 15
 - Tax 17

- Index 18

Office of Economic Research

Research Publications 2007

Corporate Venture Capital and the International Intensity of Portfolio Companies

Joseph A. LiPuma; released July 2007

<http://www.sba.gov/advo/research/rs306tot.pdf>

In 2000, more than \$100 billion in venture capital was disbursed, more than one-fifth by corporations. The relationship between corporate investments and the degree to which the companies receiving venture capital funds pursue international activities is investigated in this study. The study examines the prior international experience of corporate venture capital providers and the existence of international marketing and operations capability as it relates to high levels of portfolio company international intensity. The purpose of the study is to understand how the characteristics of the funding firm influence the international growth and intensity of the portfolio company. Overall, the author finds that technology-based companies that receive corporate venture capital are larger, older, better funded, and tend to be further along in their development than ventures that have not received corporate funding. The study finds a positive and significant relationship between the receipt of corporate venture capital and higher percentages of revenues earned from foreign sources. However, there is no conclusive evidence that either corporate international diversity or prior international investing experience is a mechanism by which this relationship exists.

The Effect of Wealth and Race on Start-up Rates

Maritza Salazar (BCT Partners, Inc.); released July 2007

<http://www.sba.gov/advo/research/rs307tot.pdf>

The notion that it "takes money to make money" is commonplace in public discourse. Indeed, some researchers find that the ability to start a business would be greatly impaired without some form of financial assets or net wealth. Others, however, have found that some businesses do not require large amounts of start-up capital, and therefore, one's financial position has little to do with whether or not an individual is able to start their business. Understanding the role of wealth in predicting the likelihood of becoming self-employed may be particularly relevant for nascent minority entrepreneurs.

Banking and
Financial Issues

This research uses the Panel Study of Entrepreneurial Dynamics (PSED) to uncover whether wealth affects the start-up outcomes of minorities and non-minorities differently. The author finds that at first glance, net wealth is related to the likelihood that an entrepreneur will start a company. However, a more fine-grained analysis shows that net wealth is positively correlated with the probability that a nascent entrepreneur will start a new company if the nascent entrepreneur is in the top 25 percent of the wealth distribution. This research also shows that wealth affects the outcomes of minority entrepreneurs slightly differently than it influences the outcomes of their white counterparts.

Income and Wealth: How Did Households Owning Small Businesses Fare from 1989 to 2004?

George W. Haynes; released June 2007

<http://www.sba.gov/advo/research/rs300tot.pdf>

The 1990s were marked by the largest peacetime expansion in the U.S. economy. Income and wealth of American households rose significantly during this period. This report continues the study of wealth and income of U.S. families that own businesses. It finds that families owning businesses remained significantly more likely to be high income earners and high wealth holders than families not owning businesses. However, income and wealth for households owning businesses are more sensitive to fluctuations in economic activities. As a result, the selection of time periods for assessing the income and wealth growth of households owning small businesses relative to non-business-owning households significantly affects the outcome of the analysis. Consequently, when the time period from 1989, a peak year, to 2004, a mid-recovery year, is selected, it appears that households owning small businesses made less progress in accumulating wealth than other households. In other words, the likelihood of being a high-wealth household increased at a faster rate for those without a small business than for those with a small business. However, this result was not supported when the time period from 1992, an early recovery year, to 2004, a mid-recovery year, is selected; households with and without small businesses appeared to have very similar changes in income and wealth during this period.

Income and Wealth of Veteran Business Owners, 1989-2004

George W. Haynes; released October 2007

<http://www.sba.gov/advo/research/rs310tot.pdf>

Banking and
Financial Issues
continued

This study compares changes in the income and wealth of veteran and non-veteran households; veteran small business households with veteran non-business households; and veteran small business households with non-veteran small business households. Overall, the author finds that three major developments over the past two decades determined the levels and changes in the income and wealth of veteran households and veteran business households in the United States in comparison with the overall population. The number of veteran households declined from 1989 to 2004 (from 28.6 million households in 1989 to 25.3 million households in 2004); the age composition of the head of the veteran households grew much older by 2004; and the percentage of small business owners in the population of veteran households declined (from 13.6 percent in 1989 to 12.2 percent in 2004). The likelihood of being high income has declined for these veteran small business owners by nearly 24 percent while the likelihood of being high wealth increased by nearly 22 percent. Regression analyses that control for such variables as age suggest that veteran households generally had lower income than non-veteran households, veteran small business households had higher wealth than veteran non-business households, and veteran small business households had lower wealth than non-veteran small business households. Most important, there were no substantial changes (neither increases nor decreases) in the differences in income and wealth between veteran and non-veteran households, veteran small business and veteran non-business households, and veteran business and non-veteran business households from 1989 to 2004.

A Two-Step Analysis of Standardized Versus Relationship Bank Lending to Small Firms

Polly Hardee; working paper, released June 2007

<http://www.sba.gov/advo/research/rs305tot.pdf>

Whereas the use of credit scoring for consumer loans has been commonplace in banks for quite some time, the use of credit scoring for small business loans is a more recent phenomenon. The study attempts to answer several questions related to the use of credit scoring in small business lending, such as: How have banks incorporated credit scoring

Banking and
Financial Issues
continued

in their small business lending operations? How does credit scoring influence the availability of credit to small businesses? What factors predict the likelihood of the use of small business credit scoring by banks? The author conducted three basic investigations for this research. The study investigated the use of credit scoring within banks. The study estimated how small business lending and micro business lending were affected by the adoption of credit scoring by banks. Finally, the study investigated the factors that affected the likelihood that a bank would use credit scoring for small business loans. Overall, it found that while credit scoring has yet to become a primary instrument in loan underwriting for a majority of banks in the United States, there are indications that credit scoring may be making more borrowing opportunities available to small businesses.

The Value to Banks of Small Business Lending

Joe Peek; released May 2007

<http://www.sba.gov/advo/research/rs301tot.pdf>

This study investigates the contribution of relationship lending to the value of banks by estimating the market premium placed on the small business loan portfolios of banks. This approach contrasts with the previous literature that has focused almost exclusively on the value of lending relationships to the firms that obtain access to bank lending, finding that firms, both large and small, accrue substantial benefits. The underlying hypothesis of this study is that relationship lending is mutually beneficial, benefiting banks as well as the firms to which they lend. The authors find that for commercial and industrial loans, small business lending does, in fact, add value to banking organizations overall. This evidence suggests that at least for small banks, the added revenue associated with relationship lending exceeds the added information costs associated with evaluating and monitoring small business commercial and industrial loans. Small business lending was found to be a profitable market niche for small publicly traded banking organizations in the United States.

Frequently Asked Questions

Chad Moutray; released August 2007

<http://www.sba.gov/advo/stats/sbfaq.pdf>

This document serves as a summary of other research materials and provides a series of quick, easy-to-recite facts for an external audience to recognize the importance of small business in the economy. As such, it is an excellent "introductory" publication for individuals to acquaint themselves with Office of Advocacy research and data.

Friends or Foes: The Spatial Dynamic between Established Firms and Entrants

Lawrence Plummer; working paper, released February 2007

<http://www.sba.gov/advo/research/rs293tot.pdf>

State and municipal economic development agencies are increasingly designing policies to nurture and support home-grown businesses to achieve their growth objectives. This research explores the impact on established firms of new local entrants. It evaluates the competing views that new firms increase competition and thus hurt existing firms and, on the other hand, that new entrants provide positive spillover effects that benefit everyone, including existing firms. The author observes that in the first year of a new firm's existence, before the entrant has time to contribute to positive local effects, its entry is more likely to hurt the financial performance of existing firms. By the third year after entry, however, the effect on the financial performance of existing firms is positive. In the short term, entrants are foes and in the long term, entrants are friends.

Quarterly Indicators: The Economy and Small Business

Chad Moutray

Fourth Quarter 2006, released February 2007:

<http://www.sba.gov/advo/research/sbqei0604.pdf>

First Quarter 2007, released May 2007

<http://www.sba.gov/advo/research/sbqei0701.pdf>

Second Quarter 2007 released August 2007:

<http://www.sba.gov/advo/research/sbqei0701.pdf>

Third Quarter 2007, released November 2007:

<http://www.sba.gov/advo/research/sbqei0703.pdf>

This regular publication pulls together data from a variety of sources to highlight quarterly economic trends relevant to small businesses.

A Real Options Model of Stepwise Entry into Self-Employment

Karl J. Wennberg, Timothy Folta, and Frederic Delmar; working paper (Babson Entrepreneurship Research Conference Best Paper Award winner); released June 2007
<http://www.sba.gov/advo/research/rs304tot.pdf>

Many people do not enter directly into full-time self-employment, but choose to enter part-time. By doing so, they minimize the uncertainty related to self-employment as they can retain their employment while testing the viability of the self-employment choice. For many people, part-time self-employment represents not only a secondary income, but also a first step into full-time self-employment. The authors of this paper examine the path toward self-employment as one fraught with uncertainty. That is, an individual will consider the choice to enter into self-employment and to leave employment by others as a hedge against uncertainty. Part-time entry into self-employment allows them the strategy of limiting their investment in time and money. If successful, they can enter self-employment on a full-time basis; if not, they have limited their risk, while maintaining their full-time job elsewhere.

Small Business and State Growth: An Econometric Investigation

Donald Bruce, John A. Deskins, Brian C. Hill, and Jonathan C. Rork; released February 2007
<http://www.sba.gov/advo/research/rs292tot.pdf>

For several years, the U.S. Census Bureau has produced firm-size data for the Office of Advocacy through its Statistics of U.S. Business (SUSB). With data spanning 1988 to more recent years, researchers willing to investigate linkages between small firm establishment births and deaths by state now have a sufficient number of observations to conduct their analysis. The authors of this study utilize SUSB data to examine the effects of small firm establishment births and deaths on state-level changes in gross state product (GSP), state personal income (SPI), and total state employment for the years 1988 to 2002. They find that small firm establishment births have a larger

impact than any other factor examined on GSP, SPI, and total state employment. In fact, the authors find that small firm establishment birth rates and death rates have equal and opposite effects on state economic growth. This is a key finding, as it suggests that economic growth will be faster when the net small firm establishment birth rate is positive (i.e., when the birth rate exceeds the death rate). The authors conclude that this general finding reveals that state efforts to promote small business formation will be more fruitful in terms of generating economic growth than virtually any other policy option in the models.

The Small Business Economy: A Report to the President for Data Year 2006 (2007 Edition)

Kathryn Tobias, editor, with various contributors; released December 2007

http://www.sba.gov/advo/research/sb_econ2007.pdf

In this annual publication, the Office of Advocacy reviews the economic environment for small businesses in the year 2006, as well as the financial and federal procurement marketplaces. It also features chapters on minorities in business, veteran business ownership, a discussion of social entrepreneurship, an examination of the importance of pre-venture planning, and a review of Regulatory Flexibility activities for fiscal year 2007.

Chapter 1: "The Small Business Economy" by Brian Headd, with contributions from Chad Moutray

Chapter 2: "Small Business Financing in 2006" by Victoria Williams and Charles Ou

Chapter 3: "Federal Procurement from Small Firms" by Major Clark and Radwan Saade

Chapter 4: "Minorities in Business: A Demographic Review of Minority Business Ownership" by Ying Lowrey

Chapter 5: "Characteristics of Veteran Business Owners and Veteran-Owned Businesses" by Jules Lichtenstein and Joseph Sobota

Chapter 6: "Social Entrepreneurship and Government: A New Breed of Entrepreneurs Developing Solutions to Social Problems" by Andrew Wolk of the Massachusetts Institute of Technology and Root Cause

Chapter 7: "Pre-venture Planning" by William Gartner of Clemson University and Jianwen (Jon) Liao of the Illinois Institute of Technology

Chapter 8: "Regulatory Flexibility Act Implementation, FY 2007" by Janis Reyes, Claudia Rodgers, and Sarah Wickham

Appendix Data Tables by Brian Headd and Victoria Williams

Small Business Growth: Searching for Stylized Facts

Brian Headd and Bruce Kirchoff; working paper, released October 2007

<http://www.sba.gov/advo/research/rs311tot.pdf>

The lack of data on the age of firms has hampered efforts to understand the life cycle of firms overall and by industry. There is a need to document the dynamics of new firms and the effect of the business cycle on the growth, decline, and survival of firms. This paper concludes that growing firms are generally a constant share of the economy with a minor business cycle effect; firms with employment growth outnumber firms with employment decline, and fast-growing firms in a given year tend to revert to the mean in later years.

Small Business Profiles for the States and Territories

Victoria Williams; released October 2007

<http://www.sba.gov/advo/research/profiles>

The state profiles illustrate the economic condition of small businesses in the United States overall and in each of the 50 states, the District of Columbia, and the U.S. territories. Each state profile contains sections on the following topics: the number of firms, industry composition, small business income, banking, women's and minority business ownership, and employment.

The Small Business Share of GDP, 1998-2004

Kathryn Kobe, Economic Consulting Services, LLC; released April 2007

<http://www.sba.gov/advo/research/rs299tot.pdf>

This study extends work previously sponsored by the Office of Advocacy to examine small businesses' contribution to gross domestic product (GDP). This report considers each component of private nonfarm GDP and estimates the proportion of it attributable to small businesses and the proportion of it attributable to large businesses. Small businesses continue to play a vital role in the economy of the United States. During the 1998-2004 time period, small businesses produced half of private nonfarm GDP. It is worth noting that while the share of GDP attributable to small business has

remained relatively stable over the years, a detailed look at the industry level reveals a more dynamic picture. While the small business share of many of the industries studied declined during this time period, strong growth in small-business-dominated sectors helped the overall share remain at 50 percent. The small business share of GDP has held virtually constant from 1998 through 2004, starting at 50.5 percent in 1998, reaching 49.9 percent in 2000, then rising to 50.7 percent in 2004. This represents several years of relative stability in the small business share since the mid-1980s.

General
Small Business and
Entrepreneurship
continued

***Educational Attainment and Other Characteristics of the Self-Employed:
An Examination using Data from the Panel Study of Income Dynamics***

Chad Moutray; working paper, released December 2007

<http://www.sba.gov/advo/research/rs313tot.pdf>

Human Capital and
Employment
Benefits
continued

This study examines the relationship between education and the choice to become an entrepreneur. In doing so, it builds on previous research linking entrepreneurial activity with educational attainment. Using the Panel Study of Income Dynamics (PSID), this paper finds that educational attainment is an important determinant of self-employment. Individuals with more schooling are more likely to start their own business, particularly in certain industries. Heads of household with post-baccalaureate experience are up to 8.3 percent more likely to be their own boss rather than work for someone else. Wealth (as defined by home ownership or the value of one's home) and prior military service also significantly increase the likelihood of self-employment.

***The Relationship between Employee Turnover and Employee Compensation in
Small Business***

John B. Hope and Patrick C. Mackin (SAG Corporation); released July 2007

<http://www.sba.gov/advo/research/rs308tot.pdf>

This study explores the relationship between employee turnover and firm size as it relates to compensation using the National Longitudinal Survey of Youth (NLSY). The purpose of this study is to examine whether employee turnover differences between small and large firms are the result of differences in wages and benefits or of some form of self-selection where employees of small businesses are simply more prone to

Human Capital and
Employment
Benefits
continued

high turnover rates than those in larger firms. Overall, this research finds that the employees of large establishments stay in their jobs longer than employees of small establishments. Offering benefits improves employee retention. When a firm offers benefits, it decreases the probability of an employee's leaving in a given year by 26.2 percent and increases the probability of staying an additional year by 13.9 percent. The earnings results based on the relationship between establishment size and earnings show that firm size has a positive impact on earnings for service and manufacturing occupations. These findings coincide with those of past literature showing an earnings difference based on firm size.

Self-Employment in the Veteran and Service-Disabled Veteran Population

Open Blue Solutions; released January 2007

<http://www.sba.gov/advo/research/rs291tot.pdf>

This study uses the Bureau of Labor Statistics' Current Population Survey (CPS) to examine the self-employment choices of veterans and service-disabled veterans, and it also examines how computer technology relates to veteran self-employment. This paper provides information about veteran entrepreneurship and illustrates the experiences of self-employed veterans in the information-based economy. Among its key findings, veterans with service-connected disabilities are self-employed at lower rates than veterans without such disabilities. Substantially all of the difference between the self-employment rates of service-disabled veterans and those of other veterans results from the service-connected disabilities themselves, and not from differences in demographic or other characteristics. In addition, approximately one-half to two-thirds of the difference in these self-employment rates is due to service-disabled veterans not working at all. Controlling for the effects of service-connected disabilities results in nearly identical rates of labor-force participation among service-disabled veterans and those without such disabilities.

Structural Factors Affecting the Health Insurance Coverage of Workers at Small Firms

Econometrica, Inc.; released March 2007

<http://www.sba.gov/advo/research/rs295tot.pdf>

Prior research by the Office of Advocacy has shown that employees at small firms are less likely to have health insurance coverage than the employees of larger entities. This report analyzes state and metropolitan statistical area (MSA) variations in the cost of employer healthcare and employer-sponsored insurance (ESI) coverage rates. Several important factors are investigated, including the impact of local market characteristics, the composition of the workforce, and the efficiency in delivering healthcare services. The goal of this research is to understand the complex interactions of the healthcare market and the cost of insurance, and their impact on workers at small businesses. Econometrica finds that the two most important factors associated with being uninsured are wages and firm size. Individuals who work for a small firm or who receive a lower wage are less likely to have health insurance coverage. Workers at firms of 100 to 249 employees spend the most on healthcare expenses, suggesting that the largest firms may be more likely to self-insure and keep a closer watch on benefits and expenditures. This finding may also suggest that the employees of the medium-size firms with 100 to 249 employees have more generous benefits.

Human Capital and Employment Benefits *continued*

Entrepreneurship in the Silicon Valley during the Boom and Bust

Robert Fairlie; released March 2007

<http://www.sba.gov/advo/research/rs296tot.pdf>

Innovation and Technology

The purpose of this study is to understand the impact of tight labor markets on the high-tech industry and effects on entrepreneurship in the Silicon Valley during the boom and bust cycles. This report uses a new measure of entrepreneurial activity to study entrepreneurship from 1996 to 2005 in the Silicon Valley known as "The Kauffman Index of Entrepreneurial Activity" (KIEA). This new measure captures the rate of business creation at the individual owner level. Economic expansion in the late 1990s generated many opportunities for business creation and productivity growth, which has been mostly linked with investment in information and communication technologies. Regions with large concentrations of high-tech industries in the San Francisco, San Jose, and especially the Silicon Valley area, placed emphasis on the role of startups and entrepreneurship. This period was set apart by swiftly rising stock prices, lucrative stock options, venture capital deals, initial public offerings, and tight labor markets. Consequently, it is unclear whether this was a period of heightened entrepreneurship or one in which returns to working in

Innovation and Technology

firms discouraged entrepreneurship. This paper investigates the effects of tight labor markets on entrepreneurship activity in the Silicon Valley compared with California and the United States, and it finds that entrepreneurship rates in Silicon Valley were higher than in the rest of the United States during the expansion period of the late 1990s.

Owner Demographics

Are Male and Female Entrepreneurs Really That Different? Kathryn Tobias, editor; Erin Kepler and Scott Shane; working paper, released September 2007

<http://www.sba.gov/advo/research/rs309tot.pdf>

Previous research has shown the performance of women-owned firms lagging male-owned firms on factors such as annual sales, employment growth, income, and venture survival. Reasons for the differences are often hypothesized, but empirical tests have historically suffered from data with a limited number of control variables on the motivations and characteristics of the owners. Moreover, many of the previous studies have suffered from survivor bias, as they study only existing (or surviving) businesses. This study seeks to determine why a performance difference exists for female- and male-owned ventures. The authors find that when other factors are controlled for, gender does not affect new venture performance. However, several factors—differing expectations, reasons for starting a business, motivations, and opportunities sought and types of businesses—vary between the genders, and these result in differing outcomes. Such observations should be taken into account when comparing the outcomes of ventures across genders.

*Educational Attainment and Other Characteristics of the Self-Employed:
An Examination using Data from the Panel Study of Income Dynamics*

Chad Moutray; working paper, released December 2007

<http://www.sba.gov/advo/research/rs313tot.pdf>

See the description of this study in the "Human Capital and Employment Benefits" section

The Effect of Wealth and Race on Start-up Rates

Maritza Salazar (BCT Partners, Inc.); released July 2007

<http://www.sba.gov/advo/research/rs307tot.pdf>

See the description of this study in the "Banking and Financial Issues" section

Income and Wealth of Veteran Business Owners, 1989–2004

George W. Haynes; released October 2007

<http://www.sba.gov/advo/research/rs310tot.pdf>

See the description of this study in the "Banking & Financial Issues" section.

Owner
Demographics
continued

Minorities in Business: A Demographic Review of Minority Business Ownership

Ying Lowrey; released April 2007

<http://www.sba.gov/advo/research/rs298tot.pdf>

This report provides information on minorities in the work force and minority-owned businesses. It includes statistics about the minority population, their labor force participation, age, education, occupation, work schedules, average personal and household income, business ownership, and business dynamics. It is an update of previous studies on minority-owned businesses and primarily uses data from the 2002 Survey of Business Owners (SBO), the latest available data from the U.S. Census Bureau. The SBO defines minority-owned businesses as entities in which minorities own 51 percent or more of the stock or equity. Six general demographic groups are classified in the SBO: Hispanic, Black, White, American Indian or Alaska Native, Asian, and Native Hawaiian or other Pacific Islander (Islander).

Self-Employment in the Veteran and Service-Disabled Veteran Population

Open Blue Solutions; released January 2007

<http://www.sba.gov/advo/research/rs291tot.pdf>

See the description of this study in the "Human Capital and Employment Benefits" section.

Impact of A-76 Competitive Sourcing on Small Government Vendors, FY 2001–FY 2006

Eagle Eye Publishers, Inc., & Jack Faucett Associates, Inc.; released May 2007

<http://www.sba.gov/advo/research/rs302tot.pdf>

According to Office of Management and Budget (OMB) Circular A-76, the federal government seeks to ensure that the American people receive maximum value for their tax dollars by requiring agencies to compete with private sector firms for the opportunity to

Procurement

Procurement
continued

perform public sector jobs deemed by the agencies themselves to be substantially commercial in nature. OMB believes that adding an element of competition to the performance of government work ultimately lowers costs and improves the delivery of services. The authors of this study examined the small business impacts A-76 contracting using data from the Federal Procurement Data System–Next Generation (FPDS-NG). The data show that since fiscal year (FY) 2001 through the third quarter of FY 2006, \$5.5 billion was spent on 3,735 A-76 contracts. Of the 795 companies that received these procurements, 567 companies, or 71 percent, were small. Small businesses won 65 percent of the total number of A-76 contracts.

Entrepreneurship in the Silicon Valley during the Boom and Bust

Robert Fairlie; released March 2007

<http://www.sba.gov/advo/research/rs291tot.pdf>

See the description of this study in the "Innovation and Technology" section.

Regional Economic
Development

Friends or Foes: The Spatial Dynamic Between Established Firms and Entrants

Lawrence Plummer; working paper, released February 2007

<http://www.sba.gov/advo/research/rs293tot.pdf>

See the description of this study in the "General Small Business and Entrepreneurship" section.

Getting the Most Bang for the Buck: An Analysis of States' Relative Efficiencies in Promoting the Birth of Small Firms

Whitney Peake and Maria Marshall, Purdue University; working paper (USASBE Best Doctoral Paper Award 2007), released January 2007

<http://www.sba.gov/advo/research/rs290tot.pdf>

New business starts have economic and social value to communities and are often a goal of state economic development efforts. States would like to foster an environment that can nurture business births; however, analysis of the impact of their expenditures

on business births is limited. This study evaluates the impact of various state expenditures on business births and gives states a benchmark for comparison with other states. Overall, it finds that state expenditures do affect the number of business births, particularly investments in human capital and roads. States with larger populations tended to be more efficient than states with small populations in supporting business births with their expenditures.

Regional Economic
Development
continued

Small Business and State Growth: An Econometric Investigation

Donald Bruce, John A. Deskins, Brian C. Hill, and Jonathan C. Rork; released February 2007

<http://www.sba.gov/advo/research/rs292tot.pdf>

See the description of this study in the "General Small Business and Entrepreneurship" section.

Evaluation of Barrier Removal Costs Associated with 2004 Americans with Disabilities Act (ADA) Accessibility Guidelines

E.H. Pechan & Associates; released November 2007

<http://www.sba.gov/advo/research/rs312tot.pdf>

The U.S. Department of Justice (DOJ) is considering amendments to the requirements for businesses to remove physical barriers to accessibility under the Americans with Disabilities Act (ADA). In 2004, the Architectural and Transportation Barriers Compliance Board (Access Board) developed recommendations to the DOJ for revised ADA accessibility guidelines (ADAAG). The 2004 ADAAG made recommendations for significant changes to the ADAAG that were adopted in 1992. In 1992 many small business owners commented that the accessibility requirements were unduly burdensome, particularly requirements to remove "architectural barriers" whenever such removal is "readily achievable." The 2004 ADAAG standards have been similarly criticized by small firms for mandating marginal changes in accessibility after many small business owners struggled for years to come to terms with the 1992 standards. This report examines the costs of complying with the architectural barrier removal requirements set out in the 2004 ADAAG. Separate costs for small firm buildings and large

Regulation

Regulation *continued*

firm buildings are developed to examine the magnitude of small firm costs, and whether small firms are expected to face disproportionately higher costs than large firms. The report finds that small firms face substantial costs from adoption of the barrier removal requirements in the 2004 ADAAG, and that typical small firm buildings incur significantly higher costs than large firm buildings on both a per-square-foot and per-employee basis. The difference in costs per square foot or per employee is based largely on the fixed-cost nature of most barrier removal projects.

Review and Analysis of Effect of EPA's Toxics Release Inventory (TRI) Phase II Burden Reduction Proposal on TRI Data Uses

E.H. Pechan & Associates; released May 2007

<http://www.sba.gov/advo/research/rs303tot.pdf>

Section 313 of the Emergency Planning and Community Right to Know Act (EPCRA) requires facilities to report on various quantities of chemical releases, and the amounts of chemicals managed on and off site. The public uses this information to estimate local health risks associated with these chemicals, and to develop policies to reduce these risks. The Environmental Protection Agency (EPA) and other regulators use this information to develop regulations and to track progress in reducing toxic chemical releases. The original regulations were adopted in 1987, and additional requirements have been added over the years. The reporting burden on businesses, particularly small businesses, has been substantial. In 1994, EPA adopted a short form, Form A, to replace the longer Form R in an attempt to reduce the burden on small firms with small amounts of chemicals handled within a facility. In December 2006, EPA adopted another reform in response to concerns that the 1994 Form A reform did not provide relief to enough facilities. Critics of the reform claim that toxics release inventory (TRI) data uses will be impaired by the 2006 changes. E.H. Pechan & Associates examined the effect of the October 2005 proposal on TRI data uses. Pechan reviewed over 2,000 comments on the proposed rule and identified 17 specific uses of TRI data, addressing national, state, and local concerns. Based on this analysis, the report found that the December 2006 final rule will not have significant impacts on data uses identified by commenters.

Small Business and State Growth: An Econometric Investigation

Tax

Donald Bruce, John A. Deskins, Brian C. Hill, and Jonathan C. Rork; released
February 2007

<http://www.sba.gov/advo/research/rs292tot.pdf>

See the description of this study in the "Regional Economic Development" section.

Index

- A-76, 13
- Access Board, 15
- Age of minority business owners, 13
- Alaska native business owners, 13
- American Indian business owners, 13
- Americans with Disabilities Act, 15
- Architectural and Transportation Barriers Compliance
 - Board, 15
- Asian business owners, 13
- Babson Entrepreneurship Conference Best Paper, 6
- Banking, 3, 4
 - by state, 8
- BCT Partners, Inc., 1, 13
- Benefits and employee retention, 10
- Black business owners, 13
- Bruce, Donald, 6, 15, 17
- Business cycle, 8
- California and entrepreneurship, 12
- Census, U.S. Bureau of the, 6
- Characteristics of veteran business owners, 7
- Clark, Major, 7
- Clemson University, 7
- Commercial and industrial loans, 4
- Compensation, 9
- Corporate venture capital, 1
- Credit scoring, 3
- Current Population Survey, 10
- Delmar, Frederic, 6
- Deskins, John A., 6, 15, 17
- Disabilities
 - and ADA requirements, 16
 - and veteran business ownership, 10
- Dynamics of minority-owned businesses, 13
- E. H. Pechan and Associates, 15, 16
- Eagle Eye Publishers, Inc., 13
- Earnings, 10
- Econometrica, Inc., 10
- Economy
 - business cycle and wealth, 2
 - indicators of, 5
 - and small businesses, 5, 7
- Economic development, 5, 15
- Economic indicators, 5
- Education
 - of minority business owners, 13
 - and self employment, 9
- Emergency Planning and Community Right to Know Act, 16
- Employee turnover, 9
- Employment, 6, 8
- Environmental Protection Agency, 16
- Establishment births and deaths, 6
- Expansion of 1990s, 2, 11
- Fairlie, Robert, 11, 14
- Federal Procurement Data System-Next Generation, 14
- Financing of small businesses, 7
- Firms by state, 8
- Foltz, Timothy, 6
- Frequently asked questions, 5
- Full-time employment, 6
- Gartner, William, 7
- Gender and business ownership, 12
- Gross domestic product, 8
- Growth of small businesses, 8
- Hardee, Polly, 3
- Hawaiian business owners, 13
- Haynes, George, W., 2, 3, 13

Headd, Brian, 7, 8
 Health insurance, 10
 High technology, 11
 Hill, Brian C., 6, 15, 17
 Hispanic business owners, 13
 Hope, John B., 9
 Illinois Institute of Technology, 7
 Income
 of minority business owners, 13
 by state, 6, 8
 of veteran business owners, 3
 and wealth, 2
 Industries, 9
 by state, 8
 Innovation, 11
 International trade, 1
 Jack Faucett Associates, Inc., 13
 Justice, U.S. Department of, 15
 Kauffman Index of Entrepreneurial Activity, 11
 Kepler, Erin, 12
 Kirchoff, Bruce, 8
 Kobe, Kathryn, 8
 Labor force and minorities, 13
 Labor Statistics, Bureau of, 10
 Lending to small and micro businesses, 3, 4
 Liao, Jianwen (Jon), 7
 Lichtenstein, Jules, 7
 LiPuma, Joseph A., 1
 Lowrey, Ying, 7, 13
 Mackin, Patrick C., 9
 Management and Budget, Office of, 13
 Manufacturing occupations, 10
 Marshall, Maria, 14
 Massachusetts Institute of Technology, 7
 Men-owned businesses, 12
 Metropolitan statistical areas and health care, 11
 Minorities and minority owned businesses, 1, 7, 13
 by state, 8
 Moutray, Chad, 5, 7, 9, 12
 Municipal economic development, 5
 Nascent entrepreneurs, 1
 National Longitudinal Survey of Youth, 9
 Occupation, of minority business owners, 13
 Open Blue Solutions, 10, 13
 Pacific Islander business owners, 13
 Panel Study of Entrepreneurial Dynamics, 2
 Panel Study of Income Dynamics, 9
 Part-time self-employment, 6
 Peake, Whitney, 14
 Pechan, E. H., and Associates, 15, 16
 Planning, pre-venture, 7
 Plummer, Lawrence, 5, 14
 Procurement, 7, 13
 Purdue University, 14
 Quarterly economic indicators, 5
 Recovery periods, 2
 Regulations, 15, 16
 Regulatory Flexibility Act, 7
 Relationship lending, 4
 Rodgers, Claudia, 8
 Root Cause, 7
 Rork, Johathan C., 6, 15, 17
 Saade, Radwan, 7
 SAG Corporation, 9
 Salazar, Maritza, 1, 12
 San Francisco and entrepreneurship, 11
 San Jose and entrepreneurship, 11
 Self-employment, 6, 10
 and wealth, 1
 Service occupations, 10

Shane, Scott, 12

Silicon Valley and entrepreneurship, 11

Small business, *see specific topic*

Small business data, 7

Sobota, Joseph, 7

Social entrepreneurship, 7

Startup businesses, 1

- impact on established firms, 5
- in Silicon Valley, 11
- and state policies, 14

States

- and business startups, 14
- economic development in, 5, 6
- and health care coverage, 11
- and small business data, 8

Statistics of U.S. Business, 6

Tax studies, 17

Technology, 1

Tobias, Kathryn, 7

Toxics release inventory, 16

Turnover, 9

Venture capital, 1

Veterans and veteran-owned businesses, 3, 9, 10

Wealth, 1, 2

- and race 1, 13
- and self-employment, 9
- of veteran business owners, 3

Wennberg, Karl J., 6

White business owners, 13

Wickham, Sarah, 8

Williams, Victoria, 8

Wolk, Andrew, 7

Women and women-owned businesses, 12

- by state, 8