



Advocacy: the voice of small business in government

Testimony of

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***U.S. House of Representatives
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Subcommittee on Economic Opportunity***

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Advocacy Findings on Veteran Business Demographics

Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. The Chief Counsel for Advocacy, who is appointed by the President and confirmed by the U.S. Senate, directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Issues are identified through economic research, policy analyses, and small business outreach. The Chief Counsel's efforts are supported by offices in Washington, D.C., and by Regional Advocates. For more information about the Office of Advocacy, visit <http://www.sba.gov/advo>, or call (202) 205-6533.

Chairwoman Herseth-Sandlin and Members of the Subcommittee, good afternoon and thank you for the opportunity to appear before you today. My name is Shawne Carter McGibbon, and I am the Acting Chief Counsel for Advocacy at the U.S. Small Business Administration (SBA). Congress established the Office of Advocacy in 1976 as an independent entity within SBA to represent the views of small business before federal agencies, to provide counsel on small business issues to the President and the Congress, to perform economic research related to small business and entrepreneurship, and for other purposes specified in our statutory charter.¹

Because Advocacy was established to provide independent counsel to policymakers, its testimony is not circulated for comment through the Office of Management and Budget (OMB) or other federal offices, and the views expressed by Advocacy here do not necessarily reflect the position of the Administration or of SBA.

Background on Advocacy and veteran entrepreneurship research

Advocacy's mission is to be an independent voice for small business inside the government in the formulation of public policy and to encourage policies that support their startup, development and growth. Its creation was premised on the belief that small business needs representation in the legislative, regulatory, and administrative processes that profoundly affect them, and that good policy requires good information. We are perhaps best known for our regulatory advocacy and our economic research.

Advocacy works every day with federal regulatory agencies and OMB to ensure agency compliance with the federal Regulatory Flexibility Act.² We help regulators develop smarter rules that will accomplish their objectives while minimizing unnecessary adverse impacts on small entities. Our activities in this area during FY 2008 saved small entities nearly \$11 billion in foregone regulatory costs, without undermining agencies' missions.³

¹ Title II, Public Law 94-305; June 4, 1976; 15 U.S.C. §634a *et seq.*

² Public Law 96-354; September 19, 1980; 5 U.S.C. §601 *et seq.*

³ For full information, see Advocacy's annual report to the President and the Congress on implementation of the Regulatory Flexibility Act, which can be accessed at <http://www.sba.gov/advo/research/rs291.pdf>.

Our economic research activities both support our regulatory advocacy and develop information on a wide variety of small business topics for use by government policymakers and other stakeholders. Advocacy has a small staff of eight professional economists who work with data from many sources, including some that originate at other federal agencies and cannot be accessed by private sector researchers because of important statutory privacy protections. In addition to a variety of periodic reports and reference materials that are produced by our own staff, Advocacy also sponsors contract research on issue-specific topics that vary from year to year depending on current issues and problems, the needs of stakeholders, and the availability of resources. On average, Advocacy releases about 25 research reports and data products annually.⁴

Although Advocacy's activities on behalf of all small firms should benefit veteran-owned firms to the same extent they help small firms in general, our economic research function forms a special nexus between Advocacy and the veterans business community. Subsequent to the enactment of the Veterans Entrepreneurship and Small Business Development Act of 1999 (Public Law 106-50), Advocacy began a long-term effort to develop new information on veterans in business and related topics. This proved to be more difficult than expected, especially in the early years, largely because most data sources and records of routine business transactions and processes (e.g., bank loans) do not include information on veteran or disability status, information largely irrelevant to their purposes, if not to those with research or policy interests. For example, even today, there is no easy way to tell how many veteran-owned firms, or even individual veterans, are in bankruptcy. The forms used in this process simply don't ask for veteran status.

Gradually, Advocacy, in cooperation with our friends in other agencies,⁵ has been able to use specialized techniques, including surveys and the matching of administrative data from disparate sources, to develop information on veterans in business which is not available "off the shelf." All of the reports that have been completed are posted on Advocacy's veterans economic research website,⁶ and I have included a listing in your information package. These include both

⁴ See Advocacy's homepage at <http://www.sba.gov/advo/> for additional information on economic research.

⁵ Including the Census Bureau, the Bureau of Labor Statistics, the Internal Revenue Service, the Department of Defense, the Federal Reserve Board and others.

⁶ <http://www.sba.gov/advo/research/veterans.html>

studies that were dedicated to veteran-specific issues, and studies on more general topics where we were able to develop and include veteran-specific information because veteran “markers” were available in the underlying data, something that we now try to do whenever possible.

Advocacy currently has in progress two additional economic research projects on veteran-related issues, one looking at the impact of national defense reserve component activation on employers, and one on tax and regulatory problems facing veteran entrepreneurs. These will be posted on our website when complete.

Advocacy has also used the service-disabled veteran-owned business (SDVOB) set-aside authority pioneered by this committee to reserve competition for research projects to SDVOBs. I am pleased to report that our use of this authority in 2005 was the first at SBA, and that it resulted in a very successful competition from which an award was made and excellent original research resulted.⁷ We will be using the SDVOB set-aside authority again.

Small businesses in general

Before presenting data on veterans in business, I would like to give the committee a few important statistics on small businesses in general. These numbers help us understand how important the subset of firms owned by veterans and service-disabled veterans are. Your information package also includes two documents loaded with more data on small firms, the most recent editions of our **Frequently Asked Questions** and of our **Quarterly Indicators**.

- **Number.** Advocacy estimates that, in 2007, there were 27.2 million businesses in the United States.⁸ Small firms with fewer than 500 employees represent 99.9 percent of the 27.2 million businesses (including both employers and non-employers), as the most recent data (2006) showed only about 18,000 large businesses (500 or more employees).⁹

⁷ Self-Employment in the Veteran and Service-Disabled Veteran Population; Open Blue Solutions, Chapel Hill, NC; 2007. For the full report, see <http://www.sba.gov/advo/research/rs291tot.pdf>.

⁸ <http://web.sba.gov/faqs/faqindex.cfm?areaID=24>. This estimate uses the most common definition of “small business” which is based on all IRS tax returns reporting \$1,000 or more in business income during the tax year.

⁹ http://www.sba.gov/advo/research/us88_06.pdf.

- **Employer/Non-employer.** The most recent available Census data (2006) show that 22.5 percent of all firms had employees, while the balance were non-employers.¹⁰
- **Self-employment.** Advocacy estimates that there were about 15.4 million self-employed in the workforce at the end of 2008, including 5.8 million incorporated and 9.6 million non-incorporated individuals.¹¹

Data for veterans in business

The most important primary source of data that we now have on veterans in business is the Census Bureau's **2002 Survey of Business Owners and Self-Employed Persons (SBO)**, part of the Economic Census the agency conducts every five years.¹² In July 2007, Census released two new reports on veterans in business, based on data collected in the agency's 2002 SBO. These reports, **Characteristics of Veteran-Owned Businesses (CVOB)** and **Characteristics of Veteran Business Owners (CVBO)**, are the most important data from Census on veterans in business since an earlier report based on 1992 data. The scope of the new reports is also much broader than that of the 1992 report, representing the most detailed information on veterans in business ever released by Census.¹³

We at Advocacy are most appreciative that the Census Bureau has recognized the importance of veterans business data and that the agency again included questions on veteran and service-connected disability status in its pending 2007 SBO.¹⁴ The current effort is polling 2.4 million businesses about their characteristics and the characteristics of their owners. Tabulation and analysis of their responses are underway now, and Census currently plans to release reports on veterans business data in June 2011.¹⁵

¹⁰ Ibid.

¹¹ See <http://www.sba.gov/advo/research/sbqei0804.pdf>. Some reports on self-employment exclude incorporated individuals; however, Advocacy research usually includes both types together, including individuals who chose to conduct their business activities as Subchapter S corporations, a very popular type of business organization.

¹² The SBO is a quinquennial survey first conducted in its present form in 2002. The SBO incorporates many of the purposes and survey questions of three predecessor surveys: the Survey of Minority-Owned Business Enterprises (SMOBE), the Survey of Women-Owned Business Enterprises (SWOBE), and the 1992 Characteristics of Business Owners (CBO) survey. The SMOBE/SWOBE surveys continued in 1997, while the CBO was discontinued as a separate survey after 1992, although elements of it are included in the 2002 and 2007 SBOs.

¹³ The 2002 SBO reports, together with accompanying summaries, press releases, and charts are all available at <http://www.census.gov/econ/sbo/index.html>.

¹⁴ Information for the 2007 SBO is based on tax year 2007, and actual survey data collection is in 2008 and 2009.

¹⁵ See <http://www.census.gov/econ/sbo/releaseschedule07.html> for a schedule of all planned 2007 SBO releases.

Returning to the 2002 SBO veterans business data that we now have, Advocacy prepared a synopsis of findings from the Census data for publication as a chapter in the 2007 edition of our annual report to the President and the Congress. An off-print of this chapter is included in your information package.¹⁶ This report, which is also posted on Advocacy's website,¹⁷ is an effort to interpret in a user-friendly way the massive amount of information provided in the 2002 SBO reports, which comprise nearly 200 pages of tabular data.

Advocacy and its contract researchers have also used data from a variety of other sources in its veteran entrepreneurship research program, but the demographic data we will present here today come primarily from the Census Bureau's 2002 SBO.

Veteran business demographics

Number of veteran-owned businesses. Census did not make an estimate of the total universe of veteran-owned firms. Most of the SBO data is expressed in terms of percentages of respondent business owners, and those number estimates that Census did make are estimates of respondent firms and owners only, not the total population of all veteran-owned firms. The 2002 SBO did, however, estimate that 14.5 percent of all respondent business owners were veterans and that 12.2 percent of all respondent firms had one or more veterans as majority interest owners (i.e., were veteran-owned).¹⁸

Without discussing the statistical difficulties involved, we must say at the outset that to make an estimate of the total number of veteran-owned firms, assumptions must be made that we do not know to be true without further sampling and polling. These include assumptions that:

- SBO non-respondents had the same characteristics as respondents; and
- The veteran-ownership percentages reported in the 2002 SBO remain valid in 2007, the last year for which we have data on all firms.

¹⁶ Office of Advocacy, *The Small Business Economy*, December 2007; Chapter 5, Characteristics of Veteran Business Owners and Veteran-owned Businesses, pp. 119-149, hereafter referred to as SBE.

¹⁷ See http://www.sba.gov/advo/research/sbe_07_ch5.pdf.

¹⁸ See <http://www.census.gov/econ/sbo/02/cbosof.html>.

If these assumptions are reliable, then we can make an estimate that in 2007, there were about 3.3 million veteran-owned firms in which veterans held a majority ownership interest.¹⁹

Number of service-disabled veteran-owned firms. The SBO regards service-connected disability as a characteristic of an owner and not of a firm, so it did not provide direct data on SDVOBs, but only on the service-disabled veterans themselves. Accordingly, another assumption must be made to estimate the number of SDVOBs: namely, that the SBO-reported percentage of service-disabled veteran business owners within the population of all respondent veteran business owners, about 7 percent,²⁰ holds true for firms as well as owners. If this is true, an estimate of about 230,000 SDVOBs in 2007 could be made.²¹

Because of the assumptions made in these estimates, the possibility of normal sampling and non-sampling errors in the underlying datasets, and known long-term demographic trends in the veteran population in general that could operate to invalidate the assumption that 2002 findings still work in 2007,²² these estimates should be thought of as midpoints in a range of possible estimates, with a bias toward the downside due to the aging of the veteran population. We await findings from the 2007 SBO for more current data.

Size of veteran-owned firms by receipts. Firms owned by veterans are nearly identical to all firms in their distribution by size in terms of sales/receipts. Figure 1 attached to this testimony depicts this relationship. The underlying data show this correspondence for both firms with and without employees. For example, in 2002 about 11 percent of both all firms and veteran-owned firms had receipts in the range of \$100,000 to \$249,999; about 6 percent had receipts from \$250,000 to \$499,999; 4 percent had receipts from \$500,000 to \$999,000, while 6 percent of all firms and 5 percent of veteran-owned firms had receipts of \$1 million or more.²³

¹⁹ The 2002 SBO found that 12.2 percent of all respondent firms were veteran-owned. The estimate of 3.3 million veteran-owned firms is obtained by applying that percentage to the estimated 27.2 million estimated number of total firms in 2007.

²⁰ See <http://www.census.gov/econ/sbo/02/cbosof.html>.

²¹ The 2002 SBO percent of service-disabled veteran business owners, 7 percent, multiplied by the estimated 3.3 million veteran-owned firms in 2007. This further assumes that the 2002 percentage is reliable in 2007.

²² E.g., Aging and gradual reduction in the numbers of the total veteran population, but increased numbers of service-disabled veterans in recent years.

²³ SBE, Table 5.11, p. 140.

As would be expected, employer firms tended to have greater receipts than firms without employees, and larger shares of employers are found in the higher receipts size classes. More than 20 percent of both all employer firms and veteran-owned employer firms had receipts of \$1 million or more. The opposite was the case for firms without employees, with smaller shares in the higher receipt categories. When employers and non-employers are taken together, as they are in Figure 1, the proportions of both all firms and veteran-owned firms in each receipt class generally decrease as the receipt class increased.²⁴

Size of veteran-owned firms by number of employees. Among firms with employees, businesses owned by veterans tend to be very similar to all firms in their employment sizes, as depicted in Figure 2 attached to my testimony. More than half (51.7 percent) of all respondent veteran-owned employers in 2002 had from 1 to 4 employees, while 47.3 percent of all respondent employers were in this employment size category. More than 99 percent of all employers had fewer than 500 employees, whether owned by veterans or not.²⁵

Percentage distribution of firms by kind of business, 2002. Veteran-owned firms are generally distributed among the 20 major industries (two-digit NAICS codes) similarly to the distribution of all respondent firms, as depicted in Figure 3 attached to my testimony. The five largest categories are the same for both groups:

- Professional, scientific, and technical services (veterans, 18.7 percent; all, 15.7 percent);
- Construction (veterans, 13.9 percent; all, 11.7 percent);
- Other services (veterans, 10.2 percent; all, 11.2 percent);
- Retail trade (veterans, 9.5 percent; all, 11.6 percent); and
- Real estate and rental/leasing (veterans, 9.3 percent; all, 9.6 percent).²⁶

Age of veteran-owned firms. As noted on Figure 4 attached to my testimony, veteran-owned businesses are generally older than all U.S. firms. In 2002, 54.6 percent of veteran-owned

²⁴ Ibid.

²⁵ SBE, Table 5.12, p.141. Note that these numbers refer to employers only, and not to non-employers. The seemingly anomalous category of an employer having “no employees” refers to firms that have employment some time during the survey year, but not during the specific March 12th pay period on which survey data is based.

²⁶ SBE, Table 5.17, pp. 147-148.

firms with employees and 33.1 percent of those without employees reported that their business was started or acquired before 1990. In contrast, 35.7 percent of all respondent employers and 20.8 percent of non-employers were in business before 1990.²⁷

On the other end of the scale, smaller percentages of veteran-owned firms were started or acquired after 1999, that is, were less than 3 years old relative to the survey year of 2002. About 8.6 percent of veteran-owned employers and 19.1 percent of veteran-owned non-employers reported that their firms were acquired after 1999, compared with 14.6 percent of all employers and 26.6 percent of all non-employers.²⁸

Home-based veteran-owned businesses. In 2002, more than half (51.8 percent) of veteran-owned SBO respondent firms reported that they were operating from the owner's home, as noted on Figure 4, compared with 49.4 percent of all respondent firms. As expected, veteran-owned businesses without employees were more likely to be home-based than those with employees, 60.8 percent and 22.9 percent, respectively. Percentages of home-based veteran-owned firms varied by kind of business, employer/non-employer status, and size of firm in proportions similar to those of all home-based firms.²⁹

The largest proportions of home-based veteran-owned firms by kind of business were in the construction industry (72.6 percent for veteran-owned firms, compared to 67.9 percent for all firms) and in the administrative/support and waste management/remediation services industries (63.1 percent for veteran-owned firms, compared to 60.0 percent for all firms).³⁰

Franchised veteran-owned firms. In 2002, 1.6 percent of all SBO-respondent veteran-owned firms (employers and non-employers together) were operated as franchises. Among veteran-owned employers, franchised businesses represented 3.3 percent of respondents, as noted on Figure 4. Among veteran-owned firms with 50-99 employees, 10.7 percent were franchises;

²⁷ SBE, Table 5.10, p. 139.

²⁸ Ibid.

²⁹ SBE, Table 5.13, p. 142.

³⁰ SBE, pp. 141-142.

13.0 percent of veteran-owned firms with 100-499 employees were franchises; and 8.9 percent of veteran-owned firms with 500 or more employees were franchises.³¹

Capital requirements for veteran-owned firms. Figure 4 also notes that the sources of capital were nearly the same for veteran-owned respondent businesses and other firms. Of veteran-owned firms, 63.9 percent reported using personal or family assets for capital to start or acquire their businesses, basically the same as the 63.6 percent reported by all SBO-respondent firms.³²

Use of a personal/business credit card as a source of capital was reported by 7.4 percent of veteran-owned firms and by 8.8 percent of all firms. Percentages of veteran-owned firms and all firms originally financed by banks were also nearly identical (11.5 percent and 11.4 percent, respectively), as were the percentages of those using government loans or government-guaranteed bank loans (1.3 percent and 1.6 percent, respectively).³³

Of SBO-respondent veteran-owned businesses, 28.1 percent reported that they did not need capital to start or acquire their business. Outside investors provided capital to 2.1 percent of veteran-owned firms compared with 2.7 percent of all firms. Veteran-owned businesses and all businesses also reported comparable access to the capital used to finance expansion or capital improvements.³⁴

Workforce used by veteran-owned firms. The types of workers used by veteran-owned firms and all firms responding to the SBO differed only slightly in 2002, as noted on Figure 4. Almost 83 percent of both all employers and veteran-owned employers reported using their own full- and part-time paid employees in their firm; 7.3 percent used temporary staff from a temporary help service; and 1.3 percent leased employees from a leasing service or professional organization.³⁵

³¹ SBE, p. 143.

³² SBE, Table 5.14, p. 144.

³³ Ibid.

³⁴ Ibid.

³⁵ SBE, Table 5.16, p.146.

Nearly 32 percent of veteran-owned employers, compared with 34.1 percent of all respondent employers, used contractors, subcontractors, or outside consultants; and 5.4 percent of veteran-owned employers, compared with 5.8 percent of all respondent employers, used paid day laborers to supplement their workforce.³⁶

Types of customers for veteran-owned firms. The 2002 SBO asked respondents to identify types of customers from which 10 percent or more of firm sales were attributable. These customer types were generally similar for both veteran-owned and all firms.

- Federal government (veterans, 2.6 percent; all, 2.0 percent);
- State and local government (veterans, 6.0 percent; all, 5.3 percent);
- Export sales (veterans, 1.3 percent; all, 1.4 percent);
- Other businesses & organizations (veterans, 36.0 percent; all, 32.0 percent);
- Household consumers & individuals (veterans, 46.1 percent; all 49.2 percent);
- All others (veterans, 20.4 percent; all, 18.7 percent).³⁷

These findings are of special interest as policymakers look at government contracting opportunities for veteran-owned firms. Based on 2002 data, the percentage of veteran-owned firms that identified the federal government as a major customer (10 percent or more of sales) exceeded the percentage of all firms in that respect by a factor of 30 percent (As noted in Figure 4, 2.6 percent vs. 2.0 percent). The amount of dollars going to firms owned by veterans and service-disabled veterans has increased since then, but we do not now know whether veterans are still outperforming the general population of firms in terms of this “major customer” measure. This will be an important metric to look at when the 2007 SBO data becomes available.

It is also interesting to note that more than twice as many firms identified state and local government as major customers than those who so identified the federal government. This was true for both all firms and veteran-owned firms. Regardless of what this means for federal contracting policy, it does tell us that opportunities at the state and local level should play an important part in the strategy of firms wishing to do business with government. This is another important metric to watch in the 2007 SBO.

³⁶ Ibid.

³⁷ SBE, Table 5.15, p. 145.

Veteran owner demographics

One of the two veterans reports that Census compiled from its 2002 SBO data gave us information on firms; the other dealt with business owners themselves. The Census report on veteran business owners included information on owners with service-connected disabilities, and this report is the primary source of the data presented in this section, as it was summarized in Advocacy's special veterans report from 2007. Key points on veteran business owners are also noted on Figure 5 attached to my testimony.

Race, ethnicity and gender of veteran business owners. The 2002 SBO found that veteran owners of respondent firms were overwhelmingly male (97.3 percent) and White (95.5 percent). Black veteran firm owners represented 3.2 percent of veteran firm owners; Hispanic veteran owners, 2.3 percent;³⁸ American Indian and Alaska Native veteran owners, 1.0 percent; and Asian veteran firm owners, 0.9 percent.³⁹

Age of veteran business owners. The single most striking demographic difference between veteran business owners and all owners, veteran and non-veteran alike, is that veteran owners were markedly older, as noted on Figure 5. In 2002, 67.8 percent of veteran business owners were age 55 and over, with 35.7 percent between 55 and 64, and 32.1 percent age 65 and older.⁴⁰

Among service-disabled veteran business owners, 57.2 percent were age 55 and over in 2002, with 30.7 percent ages 55 through 64, and 26.5 percent age 65 and older.⁴¹

In contrast, only 30.9 percent of all business owners were age 55 and over in 2002, with 20 percent ages 55 through 64, and 10.9 percent age 65 and older.⁴²

³⁸ In Census tabulations, Hispanic or Latino origin can be of any race.

³⁹ SBE, Table 5.4, p. 128.

⁴⁰ SBE, Table 5.5, p. 130.

⁴¹ Ibid.

⁴² Ibid.

As with all SBO data, these estimates are now somewhat dated, and Advocacy will be watching closely the owner age variable, and other correlated variables such as firm age, when the 2007 SBO data becomes available.

Education of veteran business owners. Veteran business owners tend to be better educated than other business owners, as noted on Figure 5. In 2002, veteran firm owners were about as likely as all owners of respondent firms to have either bachelor or postgraduate degrees (veterans, 40.7 percent; all, 40.1 percent). But veteran business owners were more likely to have post-graduate degrees (veterans, 19.2 percent; all, 17.3 percent) and less likely not to have graduated from high school (veterans, 4.3 percent; all, 6.0 percent).⁴³

The 2002 SBO found that among respondent service-disabled veteran business owners, 69.7 percent had at least some college education at the time they started or acquired their business. Over 25 percent had some college, but not a degree; 8.5 percent had an associate's degree; 17.9 percent had earned a bachelor's degree; and 18.2 percent had a master's, doctorate, or professional degree.⁴⁴

In contrast, 63.9 percent of all owners of respondent businesses (veterans and non-veterans together) had at least some college education. Over 18 percent had some college, but no degree; 22.8 percent had earned a bachelor's degree; and 17.3 percent had a master's, doctorate, or professional degree.⁴⁵

Hours worked in business by owners. More than half (50.8 percent) of the veteran owners of employer respondent firms reported working an average of 41 hours or more per week in 2002. Similar percentages were reported for service-disabled veteran owners of employer firms (53.9 percent) and all owners of employer firms (50.5 percent).⁴⁶

⁴³ SBE, Table 5.6, p.131.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ SBE, Table 5.7, p. 133.

Primary source of income for owners. Respondents to the 2002 SBO reported that the business was the owner's primary source of personal income for 50.9 percent of all owners, 47.5 percent of all veteran owners, and 44.1 percent of all service-disabled veteran owners.⁴⁷ However, Figure 5 notes differences in this metric between employers and non-employers.

Among owners of employer firms, these percentages were somewhat higher, with 69.5 percent of all owners, 69.1 percent of veteran owners, and 66.0 percent of service-disabled veteran owners reporting their business income was their primary source of personal income.⁴⁸

Owners of non-employer businesses reported somewhat lower reliance on their business income, with 43.9 percent of all owners, 39.4 percent of veteran owners, and 38.9 percent of service-disabled veteran owners indicating that it was their primary source of personal income.⁴⁹

Advocacy-sponsored research on veteran entrepreneurship issues

As I noted earlier, Advocacy has a continuing program of economic research relating to veteran entrepreneurship issues. Your information package includes a listing of all published research, and we have two additional projects underway now. I also anticipate that we will commission additional studies in the future, subject to the availability of resources. Figure 6 lists a few key findings from past Advocacy-sponsored research in this area. These include:

- About 22 percent of veterans in the U.S. household population were either purchasing or starting a new business, or considering doing so.⁵⁰
- Almost 72 percent of these new veteran entrepreneurs planned to employ at least one person at the outset of their venture.⁵¹
- About 23 percent of current veteran business owners, and 32 percent of those planning or in the process of starting a new business, indicated that their venture would be 50 percent or more Internet-dependent.⁵²

⁴⁷ SBE, Table 5.9, p. 135.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Waldman Associates, 2004; Entrepreneurship and Business Ownership in the Veteran Population; research summary at <http://www.sba.gov/advo/research/rs242.pdf>.

⁵¹ Ibid.

- Military service appeared to have provided necessary business skills to a significant proportion (one-third or more) of both current veteran business owners and those planning to become owners.⁵³
- The self-employment rate of male veterans was higher than that of non-veterans from 1979 through 2003 (the last year covered in the study), at which time it was 13.7 percent (including both non-incorporated and incorporated individuals).⁵⁴ See Figure 7.
- Veterans with service-connected disabilities are self-employed at lower rates than veterans without such disabilities, when all veterans, including those not in the active labor force, are included in the calculation. Most of this rate differential is attributable to service-disabled veterans not working due to their disabilities.⁵⁵
- Computer use is correlated with higher self-employment rates among all veterans.⁵⁶

Other Advocacy-sponsored research found that both the number and dollar amount of federal contracts to small businesses owned by service-disabled veterans were being understated in the official government reporting system during the study period,⁵⁷ and that better efforts were needed to improve the quality of data on veteran-owned firms, both to capture unidentified veteran-ownership status and to ensure the accuracy of the veteran status markers in existing data sources.⁵⁸ This research also recommended that surveys conducted by both government agencies and private sector organizations should include identifiers for veteran status and service-disabled veteran status in their survey instruments.⁵⁹

Because the main focus of this hearing is on government contracting issues, I should note that Advocacy did commission a study on the characteristics of federal procurement from veteran-owned firms which was released in 2004. This study was part of a group of studies that examined problems in miscoding procurement information in the official government reporting

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Fairlie, Robert W., 2004; Self-Employed Business Ownership Rates in the United States: 1979-2003; research summary at <http://www.sba.gov/advo/research/rs243.pdf>.

⁵⁵ Open Blue Solutions, 2007; Self-Employment in the Veteran and Service-Disabled Veteran Population; research summary at <http://www.sba.gov/advo/research/rs291.pdf>.

⁵⁶ Ibid.

⁵⁷ Eagle Eye Publishers Inc., 2004; Characteristics of Federal Government Procurement Spending With Veteran-Owned Businesses: FY 2000 – FY 2003 (3Q); research summary at <http://www.sba.gov/advo/research/rs239.pdf>.

⁵⁸ Office of Advocacy, 2004; Evaluating Veteran Business Owner Data; research summary at <http://www.sba.gov/advo/research/rs244.pdf>.

⁵⁹ Ibid.

system, and it used data from FY 2000 through FY 2003(3Q). Our findings that there was (at that time) serious under-measurement of federal contract numbers and dollars going to veteran-owned firms were presented to the appropriate officials responsible for federal procurement policy and management of the federal data system. Since then, improvements have been made in the government's redesigned data tracking system, now called the Federal Procurement Data System – Next Generation. Hopefully, our research findings proved useful in this process.

The 2004 Advocacy veterans procurement study was a snapshot analysis at that time, as are any of our research endeavors that reference program implementation as part of looking at broader policy issues. Advocacy does not have the resources or expertise to conduct ongoing program oversight, and we generally defer on such programmatic issues to the offices with the responsibility for such oversight.

Problems faced by veteran business owners

You have asked that we provide testimony on the problems that veteran business owners face. The data that we have just presented shows over and over that in most respects veteran-owned businesses mirror the business community at large. The major exceptions to this are in the age and gender of veteran business owners, who are overwhelmingly male and much older than all business owners at large. This reflects these demographic differences in the veteran population itself.

Last September, Advocacy commissioned a study to look at tax and regulatory barriers faced by veteran entrepreneurs, and we hope to have results from this project by the end of this year. We will, of course, be pleased to share the study with the committee as soon as it becomes available. For now, the last study we have which attempted to identify the problems of veteran business owners was released in 2004.⁶⁰ It is very likely that the rankings of some problems identified in the study will have changed in today's economic environment. For example, access to business credit is clearly more difficult today for most businesses, but finding quality employees is probably easier. Below are two tables from the 2004 study which identify and rank

⁶⁰ Waldman, op. cit.

the top problems reported by veteran and service-disabled veteran business owners who responded to the study's survey.

**Measures of Veteran Business Owner Problem Importance:
Non Service-Disabled Veteran Business Owners ⁶¹**

Problem	Rank	Mean	% "Critical"
Affordability of health insurance	1	3.443	46.9%
Knowledge of programs for small business owners in general	2	3.171	26.0%
Obtaining resources from the government	3	3.137	30.3%
Knowledge of programs for veteran small business owners	4	3.018	30.5%
Finding qualified employees	5	2.975	22.2%
Access to health insurance	6	2.895	34.7%
Understanding tax law	7	2.488	17.5%
Access to financing	8	2.423	15.8%
Disadvantages in government contracting	9	2.353	18.5%
Managing time	10	2.326	10.4%
Understanding regulations	11	2.239	10.4%
Retaining qualified employees	12	2.175	8.8%

**Measures of Veteran Business Owner Problem Importance:
Service-Disabled Veteran Business Owners ⁶²**

Problem	Rank	Mean	% "Critical"
Obtaining resources from the government	1	3.391	37.2%
Knowledge of programs for veteran small business owners	2	3.237	31.7%
Knowledge of programs for small business owners in general	3	3.192	28.3%
Disadvantages in government contracting	4	2.875	35.4%
Affordability of health insurance	5	2.803	31.6%
Finding qualified employees	6	2.800	26.0%
Access to financing	7	2.790	26.3%
Understanding tax law	8	2.693	18.1%
Access to health insurance	9	2.539	24.9%
Retaining qualified employees	10	2.338	14.0%
My disability	11	2.304	16.6%
Understanding regulations	12	2.292	10.2%

This study also found that investment in entrepreneurship programs for veterans and service disabled veterans is economically justifiable, that special attention should be paid to initiatives focused on home-based business and Internet usage, and that special attention should be given to developing business skills among service-disabled veterans.

⁶¹ Ibid., Table 48, p. 59.

⁶² Ibid., Table 49, p. 60.

Conclusion

This concludes my prepared testimony. I have tried to summarize some of the main findings from the most recent available data from the Census Bureau's 2002 Survey of Business Owners, currently our best source of data on veterans in business. I have also shared with you a few findings from Advocacy's own veteran entrepreneurship research. In both cases, there is much more information in the underlying source materials, and these materials are available online from both Census and Advocacy.

I appreciate the committee's interest in veteran entrepreneurship issues and Advocacy's work in this area. Both your majority and minority staff have been regular attendees at our roundtables on veteran business research. We look forward to continuing to work with the committee in any way we can to advance our knowledge about veterans in business, an extremely important part of the small business community.

Figure 1. Percentage Distribution of Respondent Firms by Receipts Size for All Firms and Firms With One or More Veterans as Majority Interest Owners: 2002

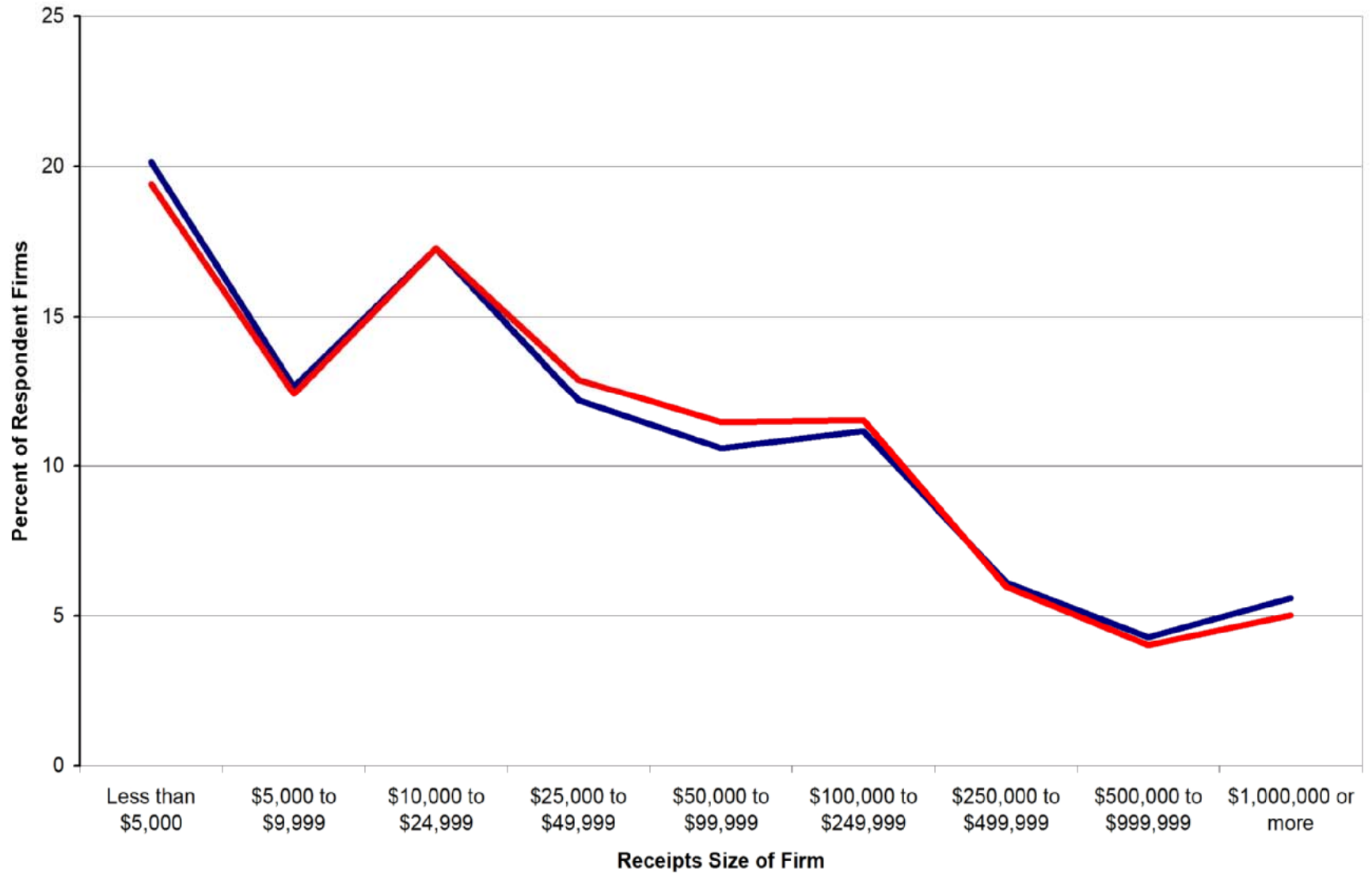


Figure 2. Percentage Distribution of Respondent Firms by Employment Size for All Employer Firms and Employer Firms With One or More Veterans as Majority Interest Owners: 2002

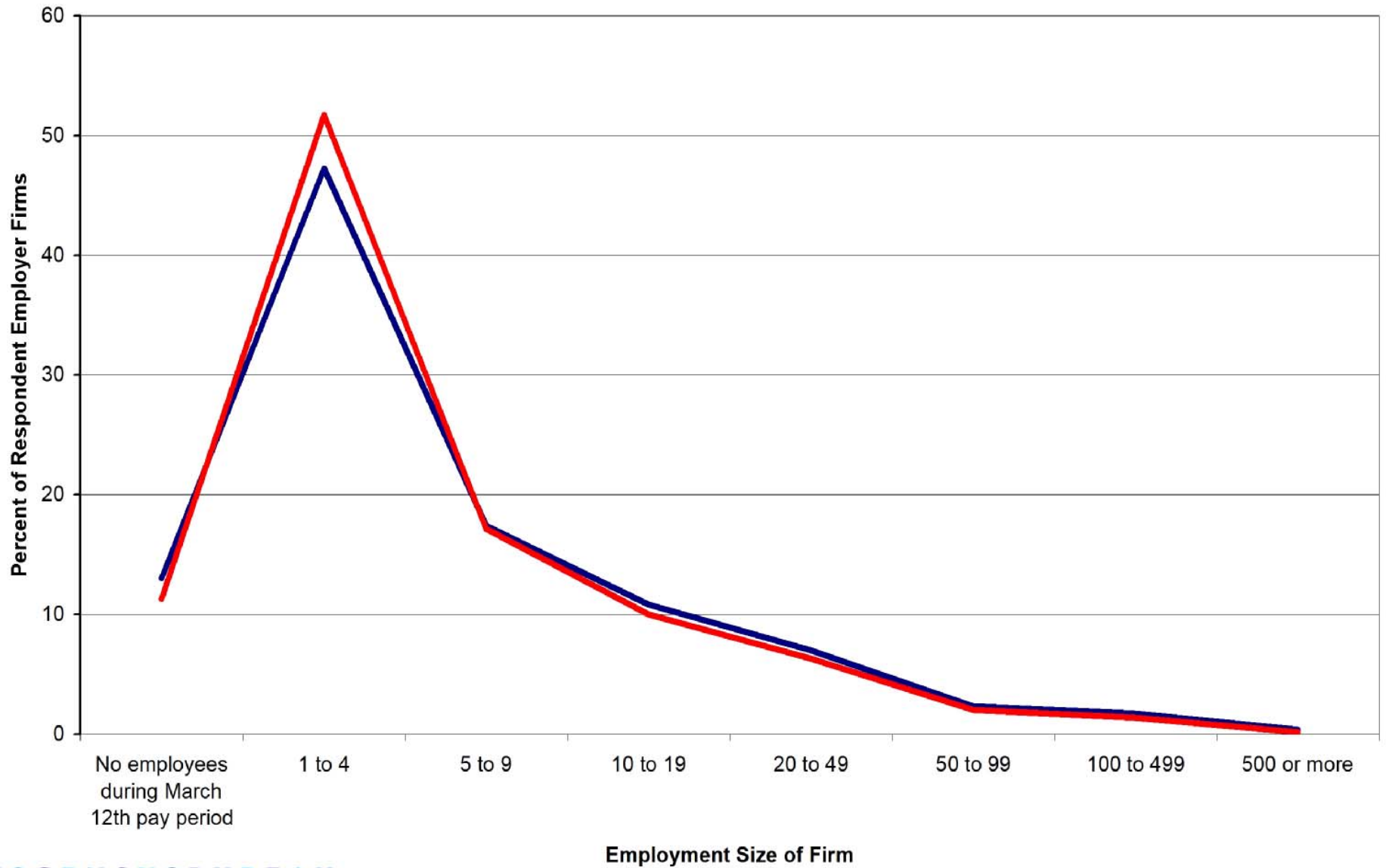


Figure 3. Percentage Distribution of Respondent Firms by Kind of Business for All Firms and Firms With One or More Veterans as Majority Interest Owners: 2002

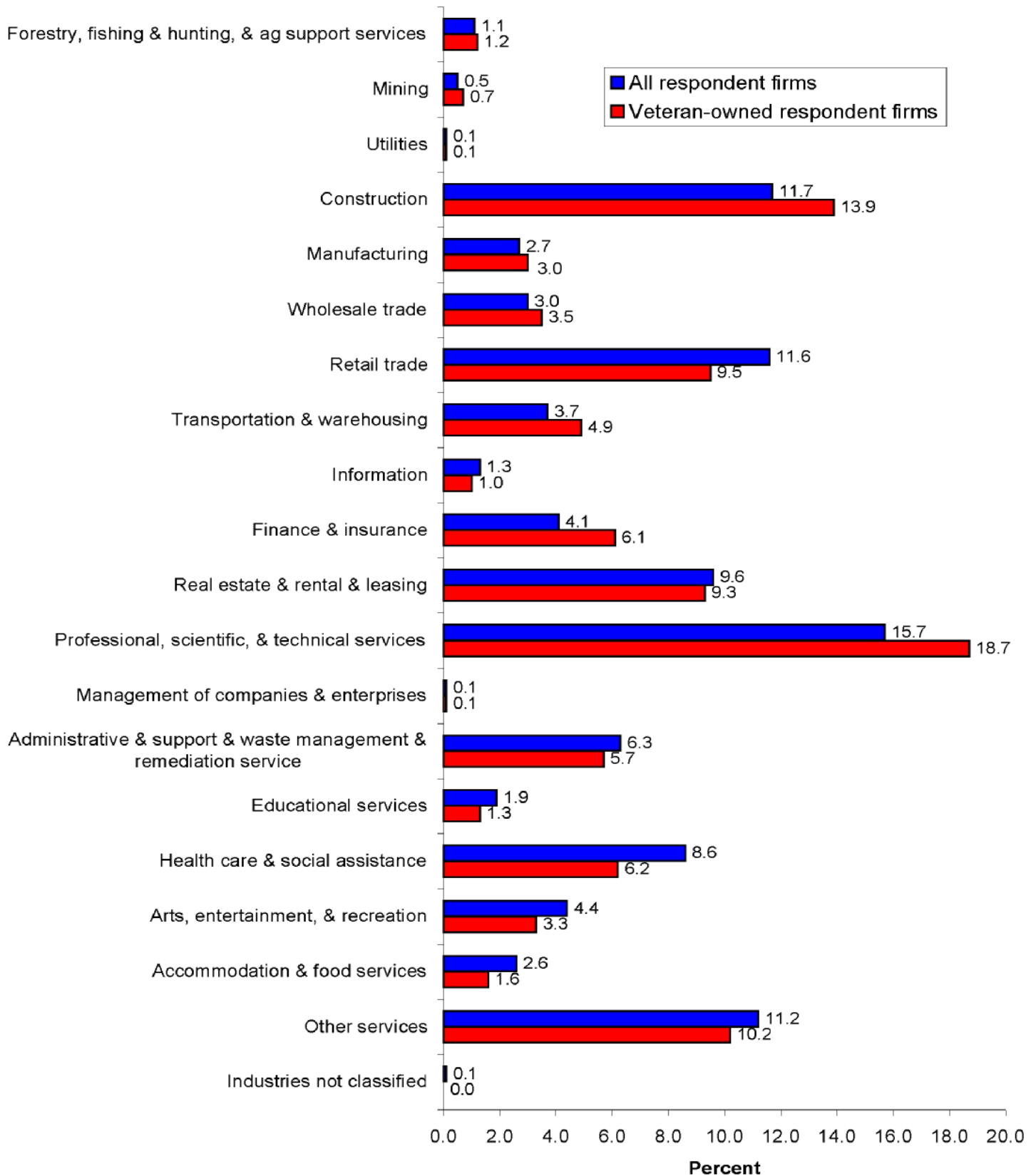




Figure 4

Veteran-owned firms in 2002

- **Older than all firms**
- **More than half (51.8%) were home-based**
- **3.3% of employers were franchises**
- **Capital obtained from same sources as others**
- **Workforce similar to that of other firms**
- **Major customers are similar to other firms, but higher % of major customers are government, 2.6% federal and 6.0% state and local govt.**



Figure 5

Veteran owners in 2002

- **Older than other owners (67.8% age 55 or older, compared to 30.9% for all owners)**
- **97.3% male; 95.5% white; 3.2% Black; 2.3% Hispanic; 1.0% Native American; 0.9% Asian**
- **Better educated than other business owners**
- **Business is primary source of income for 69% of employer owners, 39% of non-employer owners**

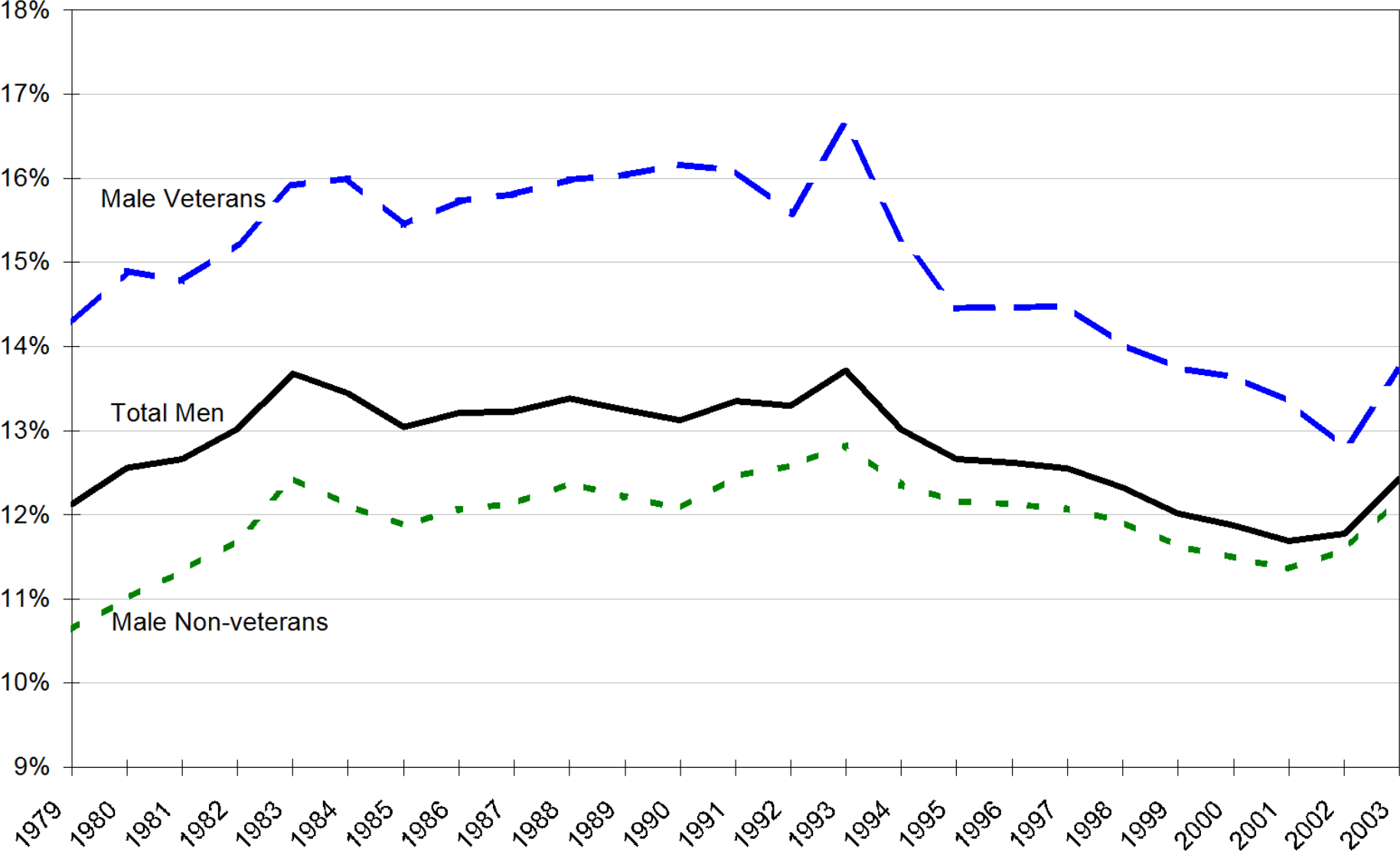


Advocacy research found that:

- **About 22% of veterans were either starting a new business or considering doing so**
- **Military service appeared to have provided necessary business skills to one-third or more of current veteran business owners**
- **Veterans with service-connected disabilities are self-employed at lower rates than those veterans without such disabilities**
- **The self-employment rate of male veterans was consistently higher than that of non-veterans**

Figure 7

Self-Employment Rates for Working Men Current Population Survey, Outgoing Rotation Group Files (1979-2003)



Source: Office of Advocacy sponsored research, **Self-Employed Business Ownership Rates in the United States: 1979-2003**, Robert W. Fairlie, 2004.