

SMALL BUSINESS RESEARCH SUMMARY

Analysis of Hispanic-Owned Companies

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Purpose

Hispanic-owned businesses are the largest category of minority-owned firms in the United States. Yet relatively little is known about the socio-economic environment in which these businesses operate. To learn more about Hispanic-owned businesses, particularly those that are fast-growing, in comparison with the entire business sector, the Office of Advocacy contracted with Cognetics Marketing Services, Inc., to look at the income and demographic characteristics of the neighborhoods surrounding three categories of businesses: all firms, all Hispanic-owned firms, and fast-growing Hispanic-owned firms, also known as "Hispanic gazelles."

Cognetics compared the household income and Hispanic composition of neighborhoods surrounding each of these types of businesses to determine whether Hispanic businesses operate in an environment that is measurably different from other firms in terms of income and demographics. Additionally, the study examined the data to see whether Hispanic gazelles more closely resembled other Hispanic businesses or the entire business sector.

Scope and Methodology

Cognetics linked data from the Census Bureau and Dun and Bradstreet Corporation (D&B) to derive the needed information on the businesses and the neigh-

borhoods in which they operate. The Census Bureau divides the country into smaller areas called census tracts for reporting income and demographic data. Using 1990 Census of Population data, Cognetics classified neighborhoods into three income classes (under \$25,000, \$25,000-\$49,999, and \$50,000 or more) and three demographic groups (less than 10 percent Hispanic, 10-49 percent, and 50 percent or more).

To obtain business information, Cognetics used data on firms from the D&B data base of companies for December 1994 and December 1998. This file comprises information on both corporate and noncorporate businesses, drawn from a variety of public and private sources. Although D&B verifies some of the information, the number of employees and the demographics of the firm's owners may not be consistently defined by the sources supplying the data or checked by D&B. Cognetics defined the neighborhood of each establishment by using three boundaries: 1) the census tract within which the business resides; 2) an area defined by a one-mile radius from the firm; and 3) an area defined by a three-mile radius from the firm.

According to Cognetics, D&B defined a firm as Hispanic if it is at least 51 percent owned by Hispanics and if its management and daily business operations are control led by Hispanics. Cognetics defines Hispanic gazelles as firms that were Hispanic-owned in 1998 and had an employment

“growth index” of 5 or more. The growth index is calculated by multiplying the absolute change in employment from 1994 to 1998 by the percentage change in employment, expressed as a decimal.

Highlights

Most of Cognetics’ report consists of tables showing the number and percent distribution of firms or employees, broken out by the demographics of the firm’s owners; the income and demographics of the neighborhood; and the size of the neighborhood. These highlights are generally drawn from the distribution of firms (rather than employment totals) and the characteristics of the single nearest census tract (rather than all tracts within one or three miles).

- Hispanic-owned firms are four or five times as likely as all firms to be located in Hispanic-majority neighborhoods. Only 5 percent of all firms are in such neighborhoods, whereas 23 percent of all Hispanic-owned firms and 19 percent of Hispanic gazelles are in Hispanic-majority environs.

- Conversely, non-Hispanic neighborhoods (in which fewer than 10 percent of persons are of Hispanic descent) are home to 75 percent of all firms but fewer than half of all Hispanic-owned firms (45 percent) and Hispanic gazelles (49 percent). Thus, Hispanic gazelles closely resemble all Hispanic-owned firms, and differ significantly from non-Hispanic-owned firms, in the Hispanic makeup of their surroundings.

- While the percentage of Hispanic ownership varies, of course, among the three categories (Hispanic- and non-Hispanic-owned, and Hispanic-owned gazelles), about one-third of all three categories are found in low-income neighborhoods. A little over one-half of the firms are in middle-income neighborhoods. The remaining 12 to 15 percent of firms are in upper-income neighborhoods.

- Within each income stratum, most firms are found in non-Hispanic neighborhoods. Hispanic-owned firms, including Hispanic gazelles, however, are located in areas that have at least 10 percent Hispanic population.

- The demographic contrast shows up most clearly in low-income areas. Two-thirds of all U.S. firms that operate in low-income neighborhoods are in non-Hispanic areas. But fewer than one-third of Hispanic-owned firms that are in low-income neighborhoods are in non-Hispanic low-income zones.

- Similarly, nearly three-quarters of all firms are in non-Hispanic middle-income areas. But most of Hispanic-owned businesses, including Hispanic gazelles, that locate in middle-income neighborhoods do so in areas that are partly or predominantly Hispanic.

Conclusions

Nearly one-half of Hispanic-owned firms are found in neighborhoods with almost no Hispanic population. Nevertheless, Hispanic-owned firms are far more likely than other firms to be located in heavily Hispanic neighborhoods. In general, the percentage of firms found in lower-, middle-, or upper-income neighborhoods is similar for all firms, Hispanic firms, and Hispanic gazelles. But Hispanic-owned gazelles are found less often than other Hispanic-owned firms in low-income Hispanic neighborhoods, suggesting that a neighborhood that is both poor and Hispanic poses a double barrier to a firm’s chances of growing at “gazelle” speed.

Ordering Information

The full text of this report, along with summaries of other studies performed under contract to the U.S. Small Business Administration’s Office of Advocacy, is available on the Internet at www.sba.gov/advo/research.

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