

## Race/Ethnicity and Establishment Dynamics, 2002-2006

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This paper is the second in a series to report on matching data from the 2002 Survey of Business Owners (SBO) and the 1989-2006 Business Information Tracking Series (BITS). The series focuses on business dynamics by gender, race/ethnicity, and business type (publicly or non-publicly held). It is important to note that business (establishment) births and their contributions to employment are not included in this database, as the data are for establishments already in existence in 2002. This unique data set provides the most up-to-date and comprehensive glimpse of business dynamics related to establishments that existed in 2002, reflecting trends in racial and ethnic business ownership.

The report first provides general social, economic, and business background by race/ethnicity of the owner. The report also covers the industry, employment and/or receipts size, and state location characteristics of establishments (those with employees) for which the race/ethnicity of the enterprise owner was identified in 2002. It tracks these establishments' subsequent deaths, expansions, or contractions for four periods (the one-year 2002-2003 period, as well as the successively longer periods of 2002-2004, 2002-2005, and 2002-2006). Note: it is important to read and understand the definitions and uses of the establishment, firm, and enterprise concepts in this study (see Scope and Methodology).

### Overall Findings

Business startups are crucial for job creation. The number of jobs created through the expansion of existing establishments was generally insufficient to counteract the job destruction due to business deaths and contractions. Minority-owned establishments were more likely to close than those owned by their White counterparts; at the same time, the rates of job creation due to the expansion of minority-owned establishments were consistently higher than those

of establishments owned by Whites. Lower early performance measures—such as lower receipts and fewer employees per establishment—characterize the establishments that were in operation in 2002 but had closed by 2006; this was true within each racial or ethnic group of owners.

### Highlights

- Even without counting job creation from new startups, Hispanic-owned establishments had strong job creation through expansions in 19 states, in contrast to other groups, whose businesses lost jobs.
- The median household income for Whites was \$46,119; it was \$53,832 for Asians, \$33,961 for Hispanics, and \$29,691 for Blacks in 2002. In the same year, the business density, measured by the number of firms per thousand persons in a group, was 94 for Whites, 98 for Asians, 42 for Hispanics, and 36 for Blacks.
- In this dataset, establishment closure rates and net employment losses increase with years of operation (especially since startups and their job creation are not included). In contrast to establishments owned by Whites, all three groups of minority-owned establishments had net gains in employment for the one-year (2002-2003) period.
- The death rate for White-owned establishments over the four-year, 2002-2006 period was 29.2 percent. It was 39.3 percent for Black-owned establishments, 33.9 percent for establishments owned by Hispanics, and 32.9 percent for Asian-owned establishments.
- Establishment dynamics varied by sector and minority business ownership group. For example, half of all 2002 Asian-owned establishments in mining (code 21) had closed by 2006, compared with one-third of those owned by Hispanics, 26.8 percent of those owned by Blacks, and 24.3 percent of those owned by Whites. Almost 45 percent of Hispanic-

owned establishments in mining expanded; the comparable numbers were 37.5 percent of those owned by Asians, 35.3 percent of those owned by Whites, and 14.6 percent of those owned by Blacks.

- The four-year rate of employment expansion drops drastically as the enterprise receipts size increases. Smaller enterprises (with less than \$50,000 in receipts in 2002) had higher rates of job creation because of expansion in 2002-2006. This was especially true for minority-owned enterprises.
- The four-year rate of net change in employment was negative for all racial/ethnic enterprises with \$50,000 or more in annual receipts; the rate was not necessarily negative for enterprises with receipts of less than \$50,000. Large enterprises with \$1 million or more in receipts accounted for more than 50 percent of the total job destruction in each racial/ethnic group except Asian between 2002 and 2006.
- Hawaii was among the top ten states for establishment expansions and net employment gains in each of the four racial/ethnic ownership groups over the 2002-2006 period.
- Job creation as a result of expansions in the 2002 establishments was strong; more than 21 million jobs were created because of expansions over the four-year period. Nevertheless, the number of jobs created through expansions of existing establishments was not enough to completely offset the loss of jobs as a result of deaths and contractions. The job creation of new startups, not reflected in these data, further helps to offset job losses.

## Scope and Methodology

This report examines the dynamics between 2002 and 2006 for all establishments in operation in 2002. The U.S. Census Bureau provides the U.S. Small Business Administration's Office of Advocacy the matching data from the 2002 Survey of Business Owners (SBO) and 1989-2006 Business Information Tracking Series (BITS) for this analysis. BITS is a rich database of information about establishment dynamics, including establishment deaths, expansions, contractions, and the resulting changes in employment. Establishment births are not included, as the data tracked here are for those already in existence in 2002. The SBO database offers demographic information on the owners of the enterprises that control/own the establishments.

As defined in these datasets, business activities can be recorded by the U.S. government at three levels: establishment, firm, and enterprise. The establishment-

level data used here are from the 1989-2006 BITS; the firm- and enterprise-level data here are from the 2002 SBO. The definitions can be summarized as follows:

- An establishment is a single physical location where business is conducted. It may be a single establishment or one of several under common ownership. This construct is used here in the discussions of dynamics: expansions, contractions, and deaths.
- A firm is a business organization consisting of one or more domestic establishments in the same state and industry that were specified under common ownership or control. This construct is used here in the discussion of business density.
- An enterprise is a business organization consisting of one or more domestic establishments under common ownership or control (regardless of establishment location or industry). The enterprise's employment or receipts size and owner demographics (gender and race or ethnicity) are determined at this level.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research by email at [advocacy@sba.gov](mailto:advocacy@sba.gov) or by phone at (202) 205-6533.

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