

BBR Bureau of
Business Research

Survey of
TEXAS BLACK-OWNED BUSINESSES



This report was funded by the PRESIDENT'S OFFICE of THE UNIVERSITY OF TEXAS AT AUSTIN • For the TEXAS ASSOCIATION OF AFRICAN-AMERICAN CHAMBERS OF COMMERCE (TAAACC) • Conducted by the BUREAU OF BUSINESS RESEARCH at the IC² INSTITUTE of THE UNIVERSITY OF TEXAS AT AUSTIN • Under the supervision of DR. BRUCE KELLISON, DR. JOHN SIBLEY BUTLER, and DR. MATT KERWICK



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Acknowledgments

Nearly 1,000 Texas Black business owners took time away from running their businesses to respond to our survey, and each of them deserves our thanks. Hundreds more contacted our office with questions about the survey and its goals and offered to help in other ways to identify key training needs and barriers to growth faced by Texas Black-owned businesses.

Dr. Veronica Inchauste and her team at the Office of Survey Research at the Annette Strauss Institute, The University of Texas at Austin, skillfully administered the survey for the Bureau of Business Research (BBR) and patiently shepherded the results to us for analysis. We are grateful, in particular, to Dr. Elsie Echeverri-Carroll, Senior Research Scientist at the IC² Institute, who shared with us her expertise and wisdom from her own research on Hispanic- and women-owned firms. Yeolib Kim, BBR Graduate Research Assistant, professionally managed the survey results and tabulated the findings for the research team. Matias Pasch, Undergraduate Research Assistant at the BBR, coded the open-ended survey responses and served as an in-house resource on Census Bureau data.

The Bureau of Business Research at the IC² Institute, The University of Texas at Austin, was founded in 1926 “to promote the industrial development of Texas and gather important business data to be used by businessmen locating industry in Texas.” Today, the Bureau’s publications and research focus on high technology, entrepreneurship, and international trade (especially with Mexico), as well as other economically relevant sectors for the State. Please visit our website at www.ic2.utexas.edu/bbr for more information on our activities, services, and research.

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About this Report

The Office of the President of The University of Texas at Austin sponsored *The Survey of Texas Black-owned Businesses*. The Bureau of Business Research (BBR) at the IC² Institute, The University of Texas at Austin, directed the survey and analysis. Dr. Bruce Kellison, Dr. Matt Kerwick, and Dr. John Sibley Butler served as co-Principal Investigators and authored the report.

The survey explored:

- Business owner demographics
- Business characteristics
- Training needs
- Ease in doing business with the government and the private sector.

Four databases with a combined non-duplicative total sample size of 6,993 Black-owned firms in Texas were used as the survey's sampling frame. All were mailed a questionnaire in the fall of 2013.

The response rate to the survey instrument is estimated to be 15.9%¹.

Our analysis is presented in two parts:

- **Part 1** provides background information on Black-owned business trends from the 2007 U.S. Census Bureau Survey of Business Owners
- **Part 2** contains results from the BBR survey on the characteristics of Black-owned businesses with paid employees in Texas.

An executive summary precedes the detailed analysis.

¹The response rate is estimated as the number of valid responses received from businesses owned by a person who self-identified as a Black person and who reported owning 51 percent or more of his/her business, divided by the number of surveys mailed to Black-owned businesses with correct addresses. The BBR mailed a total of 6,993 surveys, of which 597 were returned with a bad address, 512 were neither minority- nor majority-owned Black businesses, 117 were not majority-owned (>51 percent) by a Black person, nine were from an invalid business like a non-profit, and seven were blank. We received 914 valid survey responses. Thus, the response rate is estimated to be 15.9 percent (914/5751).

Executive Summary

Part 1: Background Data from the 2007 Business Census

Black-owned businesses (BOBs) represent a growing segment of the economic environment in Texas

- According to the 2007 U.S. Census Bureau's Survey of Business Owners (SBO), Black-owned businesses accounted for 7 percent of all businesses in Texas (154,283 out of 2.1 million), up from 5 percent in 2002.
- The *number* of Black-owned businesses in Texas increased from 88,768 in 2002 to 154,283 in 2007, a 74 percent increase. The total number of Texas businesses (including BOBs) rose 25 percent in that time period.
- Most of the growth in the number of Texas BOBs and the percentage of Texas BOBs among all Texas businesses has been among businesses with no paid employees other than the owner. More than 95 percent of Texas BOBs are solo practitioners with no employees, which is up from 93 percent in 2002.

BOBs in Texas trail average Texas businesses in economic terms

- SBO data from 2007 show that Black-owned businesses in Texas on average employ 10 workers, while the average business in Texas employs 23 workers.
- The average business in Texas had \$1.2 million in sales, whereas the average BOB had \$60,000 in sales in 2007.
- If the ratio of Texas Black-owned employer businesses to the Texas Black population were the same as the ratio of Texas employer businesses to the entire Texas population, there would be 46,000 Black-owned businesses with employees in Texas, not 7,205 in 2007.

Part 2: Results from the BBR Survey of Black-owned Businesses

The findings presented below highlight the general results and analyses performed on data collected from the BBR survey.

Texas BOB Characteristics

- **Employer Status:** Slightly less than one-third of the survey respondents reported that they were non-employer firms, in other words, those without any paid employees other than the owner. While this is a lower percentage than the 2007 SBO reported, Texas BOBs in the BBR survey are small enterprises. Eighty-four percent of respondents reported that their businesses employ ten or fewer workers.

Executive Summary, continued ...

- **Longevity:** Despite their relatively small size, many BOBs in the survey have been able to remain in business for years, with about 50 percent of the survey respondents reporting that they have been in business for more than 10 years. Previous research has found that the longer a business is operating, the less likely it is that the business will fail (Brock and Evans 1986).
- **Age of business and size:** Non-employer firms make up a decreasing percentage of BOBs as the age of the business increases. When BOBs are 5 years of age or less, non-employer firms constitute 43 percent of such organizations. For BOBs in existence more than 15 years, the non-employer proportion drops to 22 percent, a level that continues to decline further as the business ages. In contrast, the age distribution of employer firms remains relatively stable over time except for businesses with 100 or more employees. These larger BOBs are more likely to have been in business for more than 25 years.
- **Start-ups vs. Acquisitions:** More than 90 percent of the survey respondents are entrepreneurs, having started their business rather than having acquired it by other means. This is very consistent with the findings from other minority-owned business surveys, including the experiences of Hispanic-owned firms, which confirm that most of these businesses are begun by entrepreneurs and not purchased or otherwise acquired.
- **Business Sectors:** Most BOBs in the survey belong to a service industry (72 percent), with the Professional-Scientific-Technical Service sector being the most common at 28 percent. Twenty-two percent of the businesses are in the construction sector.
- **Certifications:** Minority set-aside business programs can provide significant market access for minority-owned firms. Survey respondents were asked about the types of minority business certifications they hold, if any, among the variety of local, state, federal, and private certifications available to minority-owned firms. Almost 65 percent of the respondents are certified through the State of Texas historically underutilized business (HUB) program, while 44 percent said they are certified through a city or county program, and 19 percent are federally certified. Fully a quarter of the respondents did not list any certifications. One-third of respondents only had a single certification. Businesses with employees have significantly more local and federal certifications than businesses without employees.
- **Access to Capital:** A common challenge for any small business is access to capital. The survey respondents reported that on average 75 percent of the capital used when they started or purchased their business came from their personal savings. Further, 61 percent of the respondents utilized only personal savings. An additional 29 percent utilized personal savings along with other sources. In total, 90 percent of the survey respondents utilized personal saving to start or acquire their business. Access to working capital via a business loan or line of credit can help sustain or grow a small business that cannot finance its daily operations through cash flow. The survey found that 28 percent of the respondents had applied for and received a loan. Over 50 percent of the respondents had never applied for a loan. And almost 20 percent of the respondents replied that they had applied for a loan but had never received one.

Texas BOB Demographics

- **Educational Attainment:** About 67 percent of the business owners surveyed reported having a bachelors or graduate degree and 91 percent had at least some college. Overall, the Black business owners in the sample have more education than the general Black population aged 25 years and older in Texas. Census data show that only 21 percent of Texas Blacks have a bachelor's degree or higher, while 57 percent have some college education, with or without a degree.
- **Experience in business:** About 47 percent of the business owners in the BBR survey had more than 20 years of experience in their current industry.

Texas BOB Opinions and Perceptions

- **Training Needs:** Black owners of businesses in Texas were asked an open-ended question about their top three training needs, and to rank them in order of importance. Their responses were coded by type of training need. Survey respondents listed Accounting/finance training more often than any other response (16 percent) among those listed first, as their top training need, followed by technology (10 percent) and management/leadership (10 percent).
- **Profitability:** Survey respondents were asked how their business performs compared to others in their particular industry segment (on a five-point Likert-type scale from much less profitable, to about average, to much more profitable). The results show a notably large cluster of respondents perceive themselves to be much less profitable than others in their industry, especially among non-employer firms.
- **Procurement:** A majority of the respondents agreed or strongly agreed that understanding the political system is a critical factor in the success of their business, and that they have less access than other businesses to government decision makers for the purposes of procurement opportunities. A majority of the respondents also agreed or strongly agreed that BOBs were unfairly excluded from participating in government contracting opportunities (63 percent) and private sector contracting opportunities (70 percent).
- **Major Challenges:** Survey respondents were asked in an open-ended question to rank the top three major challenges facing their business. BBR research staff coded the answers and grouped them by topic. The most frequently mentioned topic area encompassed funding, cash flow, and finances (26 percent of responses). Bidding for and winning contracts was the second most frequently mentioned top-ranked challenge area to their firm (12 percent). The third most frequently mentioned challenge area was marketing and sales (8 percent).
- **Skills:** Texas Black-owned business owners perceive themselves to be highly proficient across a range of business skills. The skills for which the most BOBs assessed themselves as at least "very

good” include problem solving and analysis (86 percent and 84 percent, respectively). Team management, team building, and motivating employees were rated as at least “very good” by the fewest number of BOBs, but even those skills garnered percentages for “very good” and “excellent” close to 70 percent. However, BOBs who perceive themselves to be less profitable than other businesses in their industry are significantly less likely to assess themselves to be “very good” or “excellent” on all business skills covered by the BBR survey.

Other findings

- **Customers:** The BBR survey asked whether the majority of the respondents’ customers were primarily Black, an equal mixture of Black and non-Black, or primarily non-Black. About 40 percent of the respondents reported that their customers were an equal mixture, and 44 percent said they had primarily non-Black customers. Only 16 percent of the businesses in this survey sold goods or services predominantly to Blacks. These results suggest that BOBs are fairly well integrated into mainstream business environment and that there is little evidence of an “enclave” phenomenon in which BOBs are selling goods and services primarily to Black customers.
- **Employees:** Among Texas Black-owned businesses with employees, a slight plurality (43 percent) responded that the majority of employees in their business were Black. Just over 41 percent reported that they employ an equal mixture of Black and non-Black employees. More than 15 percent responded that they have a majority of non-Black employees.

Conclusions: Improving Black-owned Business Performance in Texas

This survey highlighted a number of aspects of the business climate in which owners of Black-owned Texas businesses work.

- ▶ The number of Black-owned businesses in Texas is growing (according to Census data, up 74 percent between 2002 and 2007).
- ▶ Most Texas BOBs are small and smaller than the average Texas firm. Among BBR respondents, 85 percent reported that their businesses employ ten or fewer people. Census data indicate that non-employer firms constitute 95 percent of Black-owned businesses in Texas.
- ▶ Black owners of businesses who responded to the BBR survey are much more educated (>90 percent have some college) than Blacks in the general population over 25 years of age (57 percent).
- ▶ Most BOBs in the survey belong to a service industry (72 percent) with the Professional-Scientific-Technical Service sector being the most common at 28 percent. Twenty-two percent of the businesses are in the construction sector.

Executive Summary, continued ...

- ▶ Texas Black-owned business owners in the survey believe they are highly proficient across a range of business skills. However, BOBs who perceive themselves to be less profitable than other businesses in their industry are significantly less likely to assess themselves to be “very good” or “excellent” across all business skills covered by the BBR Survey.
- ▶ Twenty-eight percent of the respondents had applied for and received a business loan. Over 50 percent of the respondents had never applied for a loan. And almost 20 percent of the respondents reported that they had applied for a loan but had never received one.
- ▶ Seventy-five percent of Black-owned businesses in the survey had at least one HUB or other minority business certifications. However, about one-third of respondents only had a single certification. In general, non-employer firms in the survey lag employers relative to HUB and other minority business certifications, achieving parity only with state certifications. Employers have significantly more local and federal certifications than do non-employer firms.
- ▶ A majority of the respondents agreed or strongly agreed that understanding the political system is a critical factor in the success their businesses (76 percent), that BOBs, in general, have less access than other firms to government decision makers for the purposes of procurement opportunities (79 percent), and that BOBs were unfairly excluded from participating in government contracting opportunities (63 percent) and private sector contracting opportunities (70 percent).
- ▶ In general, survey respondents believe their businesses to be less profitable than their peers in the same industry. This perception is significantly more common among non-employer firms than among those with employees.
- ▶ The top training needs and biggest current challenges to the respondents’ businesses are related to accounting and finance. Sales and marketing is another function mentioned as both a training need and a business challenge.

Despite confidence in their skills as business people and relatively high levels of educational attainment, Black owners of businesses in the BBR survey still perceive significant barriers to growing their firms and achieving the profitability level of their industry peers. This is especially true for non-employer firms, who constitute 95 percent of Black-owned businesses in Texas.

Key challenges and barriers to growth emerged from the survey that policy makers and business leaders should address in order to improve the growth and performance of Black-owned businesses in Texas:

- ◆ **Goal 1:** Focus policy on improving access to financial capital and financial training for Black entrepreneurs.

Executive Summary, continued ...

- ◆ **Goal 2:** Encourage Black entrepreneurs planning new businesses to do so with a level of capitalization and scope that allows them to start their business as a team with employees rather than starting out as solo practitioner without employees.
- ◆ **Goal 3:** Target BOBs in the service sector (including professional, scientific, and technical services) and construction with information about obtaining financial capital and continuing educational opportunities in business topics (finance, accounting, management, sales, and marketing) as well as notifications about local and federal HUB/minority certifications.

This survey hopefully will contribute to the strengthening of Black-owned business performance in Texas by highlighting important aspects of the conditions, barriers, and opportunities facing them.

Part 1: Background Data from the 2007 Business Census

The United States Census Bureau collects data on Black-owned businesses (BOBs) every five years in the Survey of Business Owners (SBO). The 2007 SBO is the latest data available from the Census Bureau.

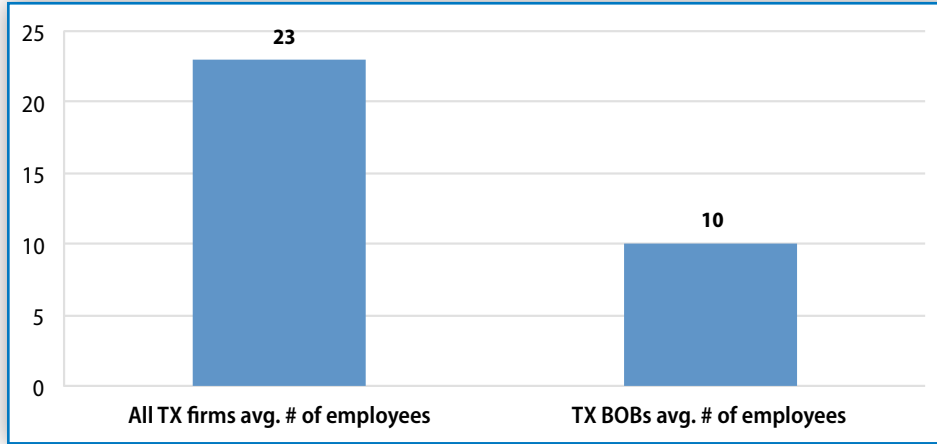
BOBs represent a growing segment of the Texas economy

The U.S. Census Bureau's Survey of Business Owners is one of the best sources for state- and national-level data on the racial and ethnic composition of businesses in the United States. The 2007 SBO data (2012 data are scheduled for release in 2015) identified more Black-owned businesses in Texas than ever before. Black-owned businesses accounted for 7.1 percent of all businesses in Texas (154,283 out of 2.1 million) in 2007, and that percentage increased from 5.1 percent in 2002. And encouragingly, this growth rate among BOBs exceeded the growth rate among all Texas businesses between 2002 and 2007. The total number of BOBs grew 74 percent between 2002 and 2007, while the total number of all Texas businesses grew 25 percent.

On the other hand, much of this growth between 2002 and 2007 was by BOBs without employees. The 2007 SBO data show that 95 percent of all Texas BOBs have no employees other than the owner (non-employer firms), and that percentage has increased since 2002 (up from 93 percent). The research on new-firm formation shows that businesses that start as non-employers are far less likely to ever have employees than are businesses that start with employees (Davis et al. 2007; Headd and Saade 2008; Désiage et al. 2011), so scaling these non-employer firms may be a challenge if they begin as businesses without employees. What is more, among all Texas firms, according to 2007 SBO figures, 96 percent of sales come from businesses with employees, but for BOBs, only 66 percent of sales come from businesses with employees. This means that non-employers account for a greater share of all of the economic activity of Texas BOBs than do non-employers among all Texas firms.

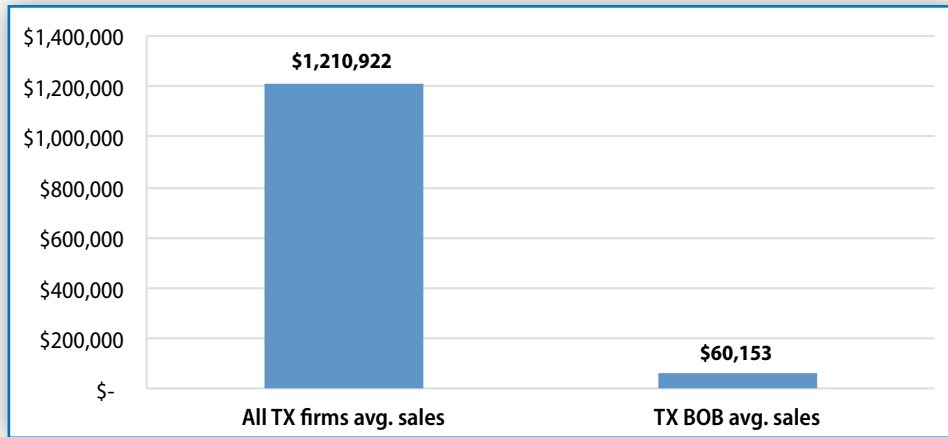
Generally speaking, the average Black-owned Texas business is smaller in size, by number of employees and by annual sales, than the average firm. A comparison of employers from the two groups reveals dramatic differences. **Figure 1** and **Figure 2** compare BOBs with employees to all businesses with employees in Texas. In **Figure 1**, the average BOB employed fewer people than the average firm among all Texas firms. **Figure 2** shows that for average yearly gross receipts, the average BOB with employees generated a fraction of what the average firm with employees among all Texas businesses did in the 2007 SBO (\$60,000 compared to \$1.2 million for the average employer firm in the state).

Figure 1. Average number of employees



Source: U.S. Census Bureau 2007 Survey of Business Owners.

Figure 2. Average sales of businesses with employees



Source: U.S. Census Bureau 2007 Survey of Business Owners.

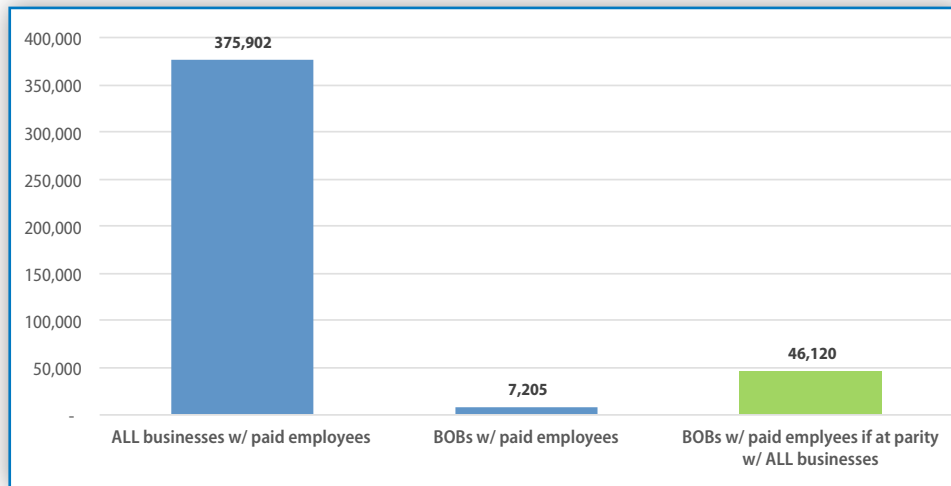
Economic Parity

The main economic driver, among small businesses, is employer firms. So what would approximate economic parity look like between all businesses in Texas with employees and Black-owned businesses with employees, in economic terms, if the ratio of Texas Black-owned businesses with employees to the Texas Black population were the same as the ratio of Texas businesses with employees to the entire Texas population? According to 2012 Census population statistics, Black Texans constitute 12.3 percent of the Texas population (3.19 million out of 26 million).

Part 1: Background Data, continued ...

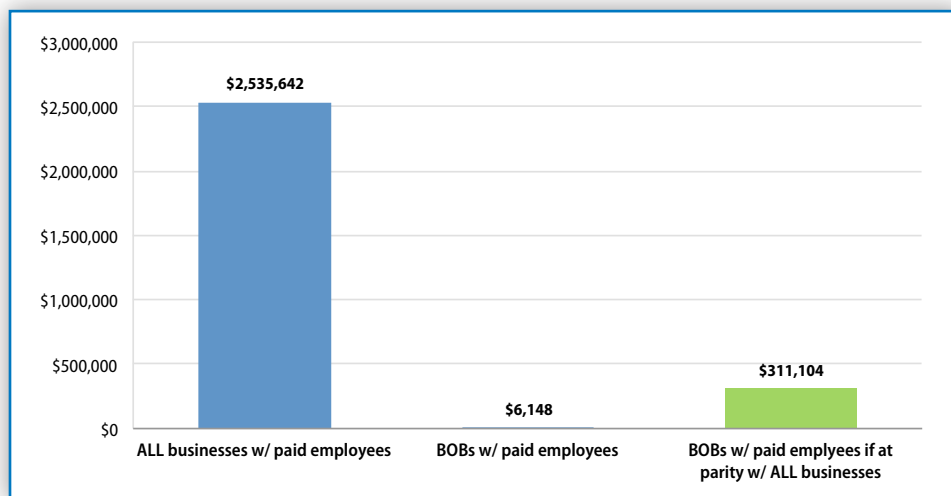
Figures 3, 4, and 5, respectively, illustrate the change needed in order for BOB employers to reach economic parity in terms of the number of firms, total sales, and the total number of employees. For each metric, the associated figure displays 2007 SBO data for all Texas businesses with employees, data for BOBs with employees, and what the metric would need to reach for BOBs with employees under economic parity. These figures show that the number of BOB employers would increase from 7,205 to 46,120, their sales would increase from \$6.1 million to \$311 million, and that the number of workers employed by those firms would increase from 72,652 to 1.1 million.

Figure 3. Number of businesses, parity between BOBs and all Texas businesses



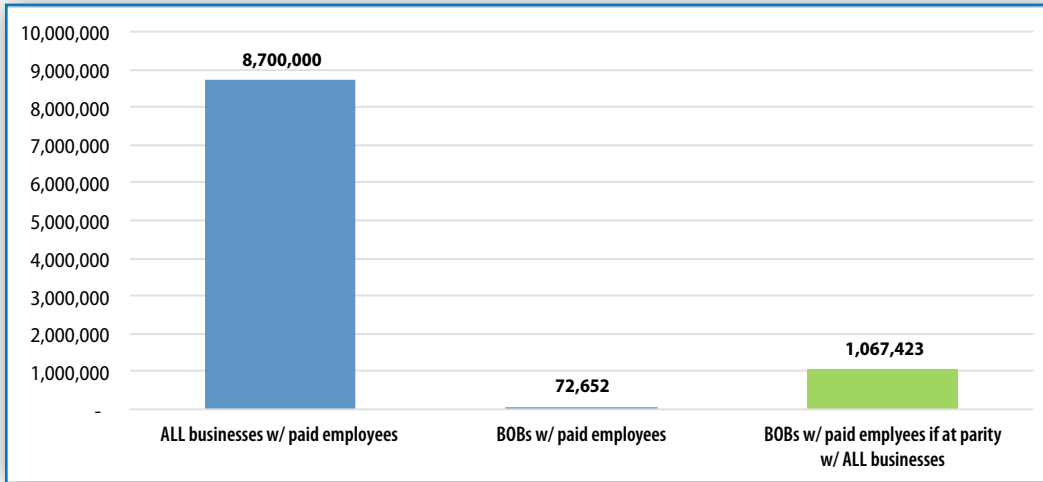
Source: U.S. Census Bureau 2007 Survey of Business Owners, and BBR calculation.

Figure 4. Total sales, parity between BOBs and all Texas businesses (1,000 \$)



Source: U.S. Census Bureau 2007 Survey of Business Owners, and BBR calculation.

Figure 5. Total employees, parity between BOBs and all Texas businesses



Source: U.S. Census Bureau 2007 Survey of Business Owners, and BBR calculation.

Nationally, the 3 to 1 ratio of White to Black entrepreneurship rates has remained constant for 100 years (Fairlie 2005). The literature explains why minority-owned firms, especially BOBs, lag in comparison to all businesses (Fairlie 2005). Low levels of assets, especially financial assets but also family, business, and human capital, all work to limit new business formation among Blacks. The same drawbacks also cause higher business failure rates, lower sales and profits, and less employment among minority-owned firms. In addition, a disadvantaged business background can limit rates of self-employment among minorities. Studies have shown that the probability of self-employment is much higher among the children of self-employed minority business owners (Fairlie 2005). Working for a family business increases the chances both of business entry and success for young minorities. There is little doubt in the research literature that consumer and lending discrimination continues to discourage new firm creation among Blacks, and that such discrimination leads to higher rates of business failure. The economic impact of addressing these large, systemic problems and improving Black-owned business performance in Texas would be large. Even approaching parity with averages for all Texas businesses would yield large gains in jobs and wealth creation.

Part 2: BBR Survey Results: Texas Black-owned Businesses

Some of the figures in this section include Census data for comparison, but most of them contain data from the BBR survey of Black-owned businesses (BOBs) in Texas. Thus, most figure titles reflect items in the questionnaire used in the BBR survey.

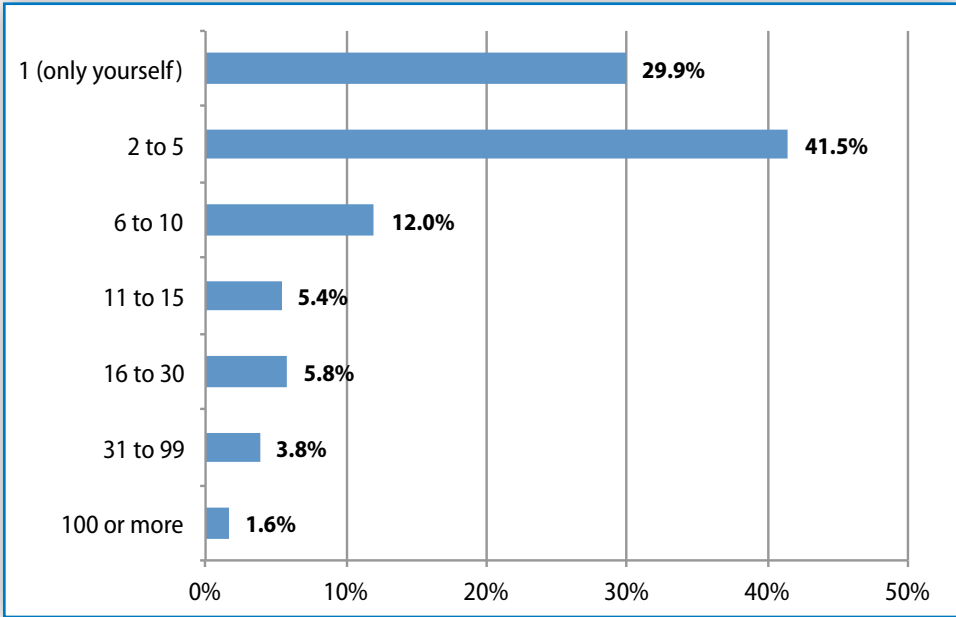
Characteristics of Texas BOBs

Most Texas BOBs are small

Slightly less than one-third of the respondents to the survey reported that they were single-person enterprises (those without any employees other than the owner). This is a much higher percentage than the 2007 SBO reported². Nevertheless, Texas BOBs are small enterprises.

Figure 6 shows the distribution of businesses among respondents, by the number of employees. Almost 85 percent of the respondents reported that their businesses employ ten or fewer people.

Figure 6 Number of Employees



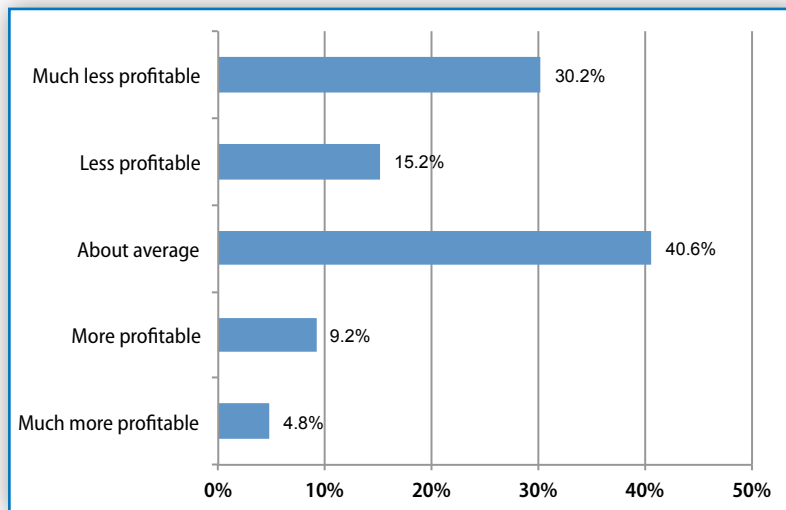
Source: BBR Survey

² This perhaps is because the sampling frame relied heavily on lists of businesses obtained from Texas State government historically underutilized business programs and on the member lists of the Texas Association of African American Chambers of Commerce.

Black business profits

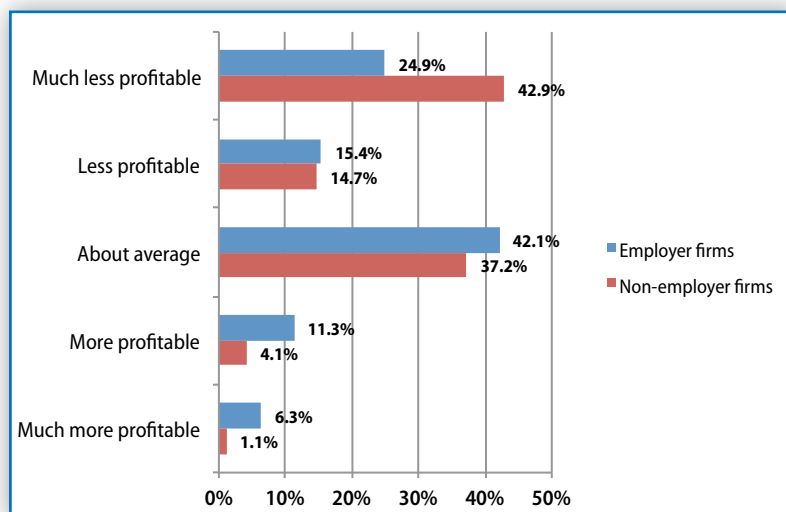
Survey recipients were asked how their business performs compared to others in their particular industry segment (on a five-point Likert-type scale from much less profitably, to about average, to much more profitably). **Figure 7** shows perceived firm profitability across all BOBs and reveals a notable cluster of respondents that perceive themselves to be much less profitable than others in their industry. **Figure 8** shows that this perception is significantly more common among non-employer firms than employer firms (43 percent vs. 25 percent). Among BOBs overall, only about 1 in 7 respondents stated that they were more profitable than their industry peers (**Figure 7**).

Figure 7. Perceived relative profitability



Source: BBR Survey

Figure 8. Perceived relative profitability, employers vs. non-employers



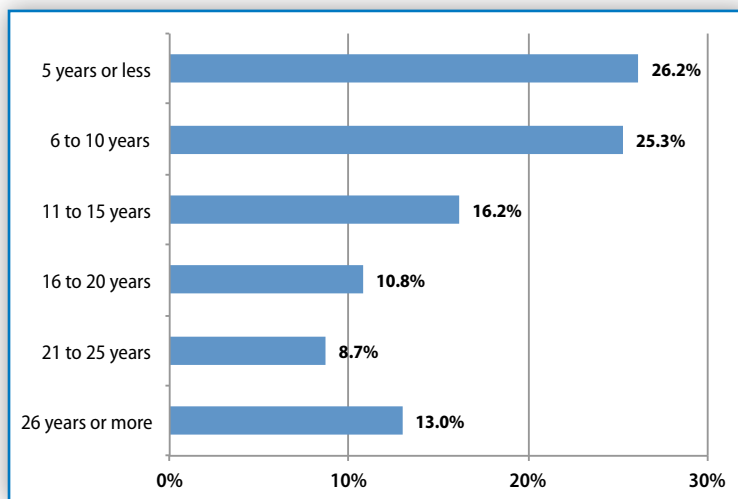
Source: BBR Survey

Years in Business

Despite the relatively small sizes of the businesses surveyed, there is some indication that BOBs in the sample have been in business for many years. Previous research found that the longer a business is operating, the less likely it is that the business will fail (Brock and Evans 1986).

Figure 9 shows that about 50 percent of the BOBs in the BBR survey have been in business for more than 10 years.

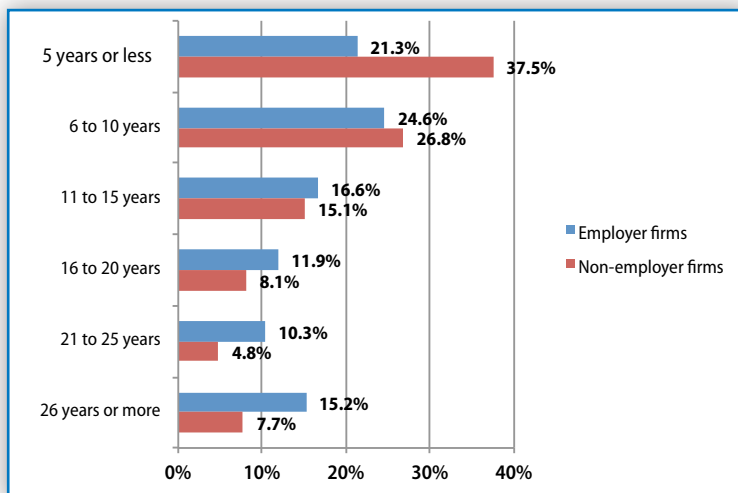
Figure 9. Number of years since business was originally established



Source: BBR Survey

Non-employer firms tend to be younger than business with multiple employees, with 38 percent indicating that they have been in business for less than five years compared to 21 percent of BOBs with employees (**Figure 10**).

Figure 10. Number of years since business was originally established, employer vs. non-employer



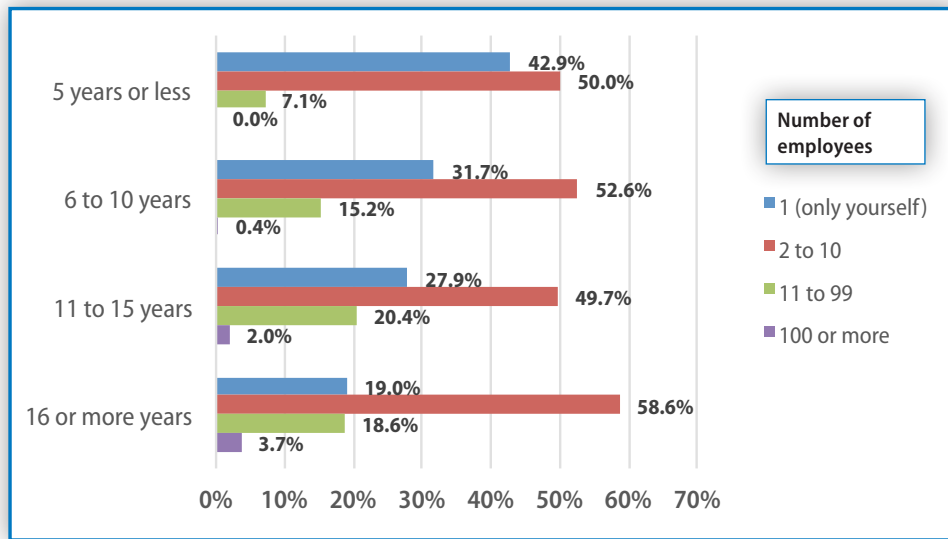
Source: BBR Survey

Scalability

As seen in **Figure 11**, non-employer firms make up a decreasing proportion of BOBs as the age of the business increases. When BOBs are five years of age or less, non-employer firms constitute 43 percent of such organizations. For BOBs in existence more than 15 years, that non-employer proportion drops to 19 percent, a level that continues to decline further as the business ages. In contrast, the age distribution of other business sizes remains relatively stable over time except for businesses with 100 or more employees. These larger BOBs are more likely to have been in business for more than 25 years.

As noted earlier in this report, non-employer firms are less likely to transition into employer status than businesses that start with employees are to add additional employees (Davis et al., 2007; Headd and Saade, 2008; Désiège et al., 2011). This trend among non-employer firms does track closely with survival rates published in the U.S. Census Bureau’s Business Dynamics Statistics (See especially Haltiwanger, J., et al., 2010.)

Figure 11. Distribution of businesses size by years in business

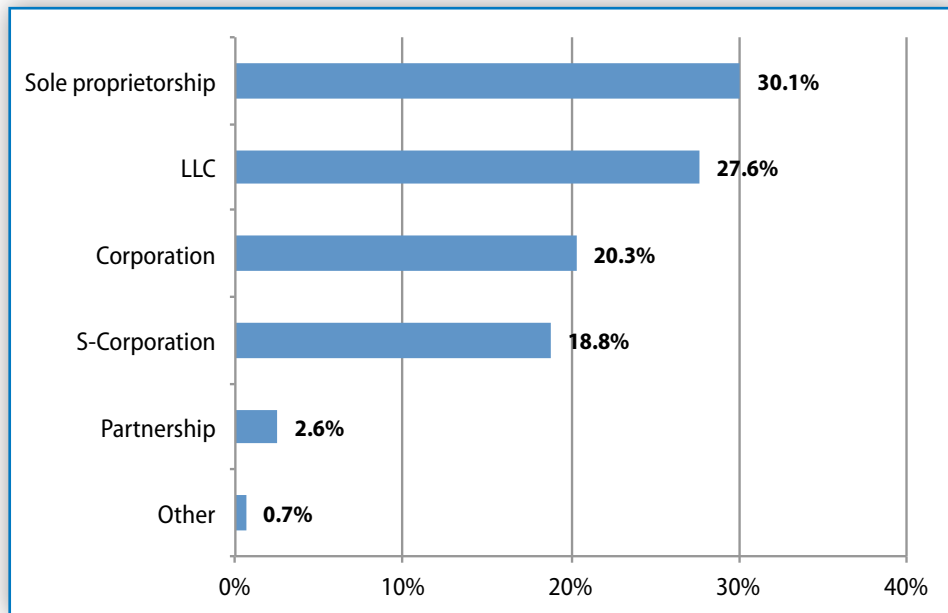


Source: BBR Survey

Ownership structure

Black-owned businesses in the BBR survey have a variety of legal ownership statuses. Taken together, some form of corporation (corporation or S-corporation) was the most common status indicated by respondents, at a combined 39 percent. Sole proprietorships and limited liability companies were next most common. **Figure 12** shows the distribution of ownership types.

Figure 12. Legal status of ownership of business



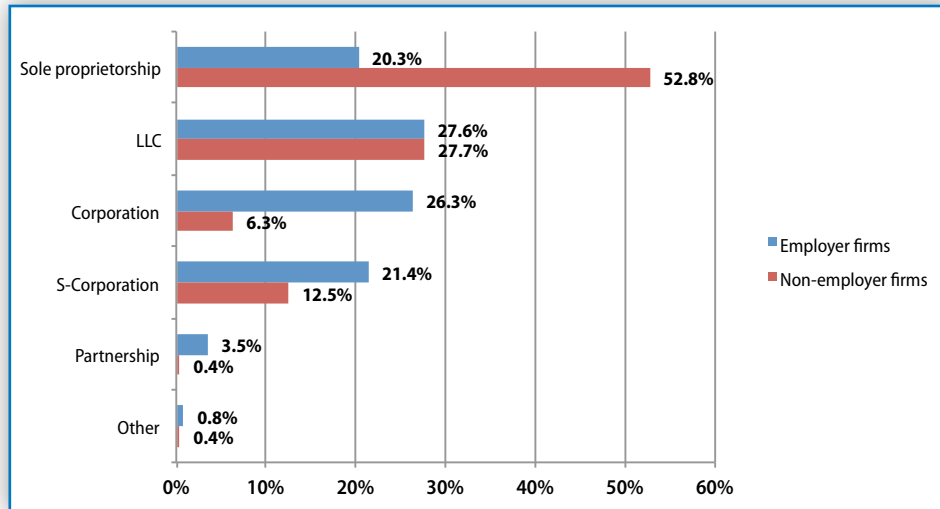
Source: BBR Survey

Sole proprietorships accounted for 30 percent of the businesses in the BBR survey. With a sole proprietorship, a business owner does not have protection from personal liability if his/her business is sued. The business may be the only occupation of an individual or it could be owned by an individual who works full time for someone else.

Partnerships (including Limited Liability Companies—LLCs) accounted for over 30 percent of the businesses in the BBR survey. These were unincorporated businesses with more than one owner who actively engages in the management of the company.

As expected, while half of non-employer firms are organized as sole proprietorships, a quarter are LLCs. In contrast, employers are more uniformly distributed across the range of ownership types (see **Figure 13**).

Figure 13. Legal status of ownership of business, Employer vs. Non-Employer

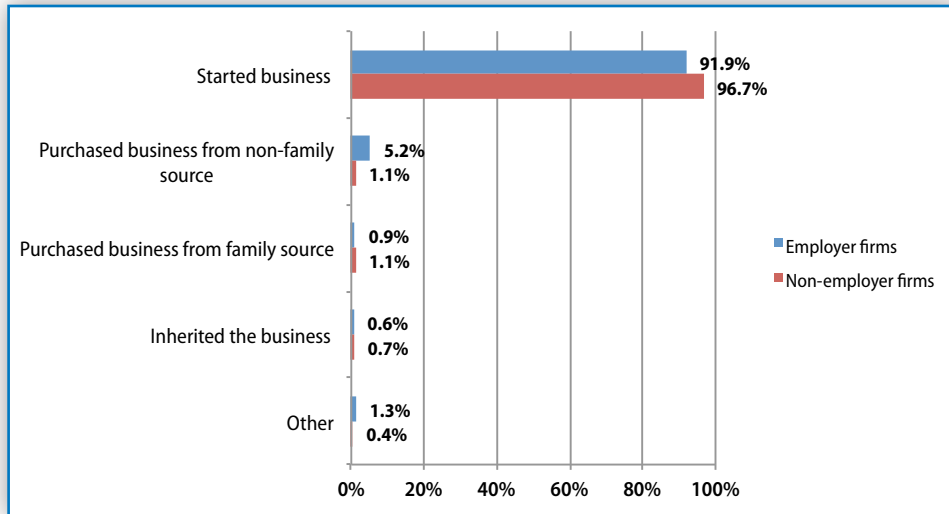


Source: BBR Survey

Entrepreneurship

The BBR survey asked respondents about whether they started their business themselves, or purchased or inherited it. The vast majority of respondents are entrepreneurs (people who launched their businesses themselves). **Figure 14** demonstrates the preponderance of entrepreneurship among survey respondents and compares responses between employers and non-employer firms. This is very consistent with the findings from other minority-owned business surveys, including the experiences of Hispanic-owned firms, which confirm that most of these businesses have been created by entrepreneurs and not purchased or otherwise acquired.

Figure 14. How business was acquired



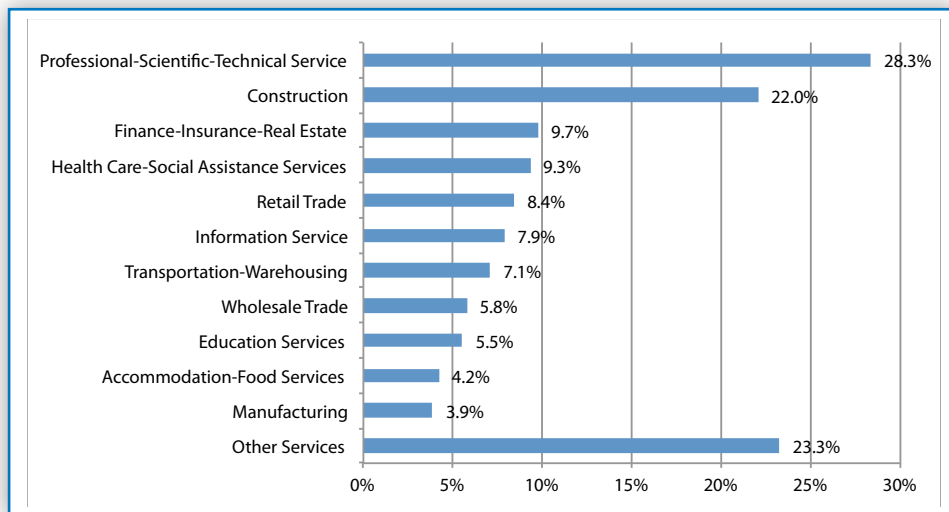
Source: BBR Survey

Businesses in service sectors predominate

Most BOBs in the survey belong to a service industry (72 percent), with the Professional-Scientific-Technical Service sector being the most common at 28 percent. Twenty-two percent of the businesses are in the construction sector. Many respondents indicated their businesses were in an unspecified “Other Services” category, typical of small businesses everywhere.

Figure 15. Sector to which business belongs

Note: Respondents could choose, in their responses, to belong to multiple sectors.

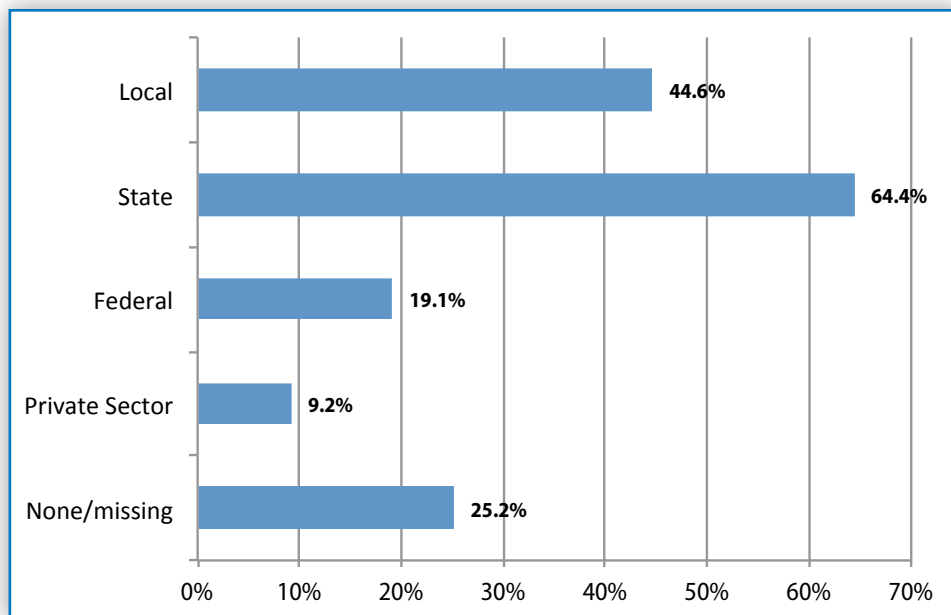


Source: BBR Survey

Minority business certifications

Survey recipients were asked about the types of minority business certifications they hold, if any. **Figure 16** shows the variety of local, state, federal, and private certifications they hold. Almost 65 percent of the respondents participate in the State of Texas historically underutilized business (HUB) program, whereas 44 percent said they participate in a city or county program, and 19 percent are federally certified. Fully a quarter of the respondents did not list any certifications. Just under one-third (32 percent) listed a single certification and 17 percent reported that they had more than two certifications.

Figure 16. Minority business certifications held by BOBs

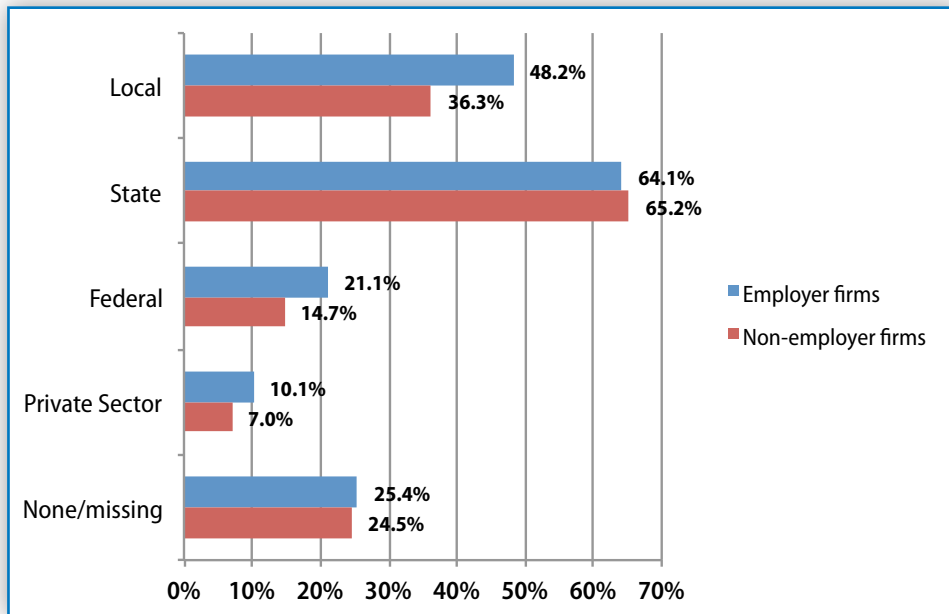


Source: BBR Survey

Characteristics, continued ...

In general, as shown in **Figure 17**, non-employer firms lag employers relative to the percentage with certifications, achieving parity only with state certifications. Employers have significantly more local and federal certifications than do non-employers.

Figure 17. Minority business certifications held by BOBs, Employers vs. Non-Employers

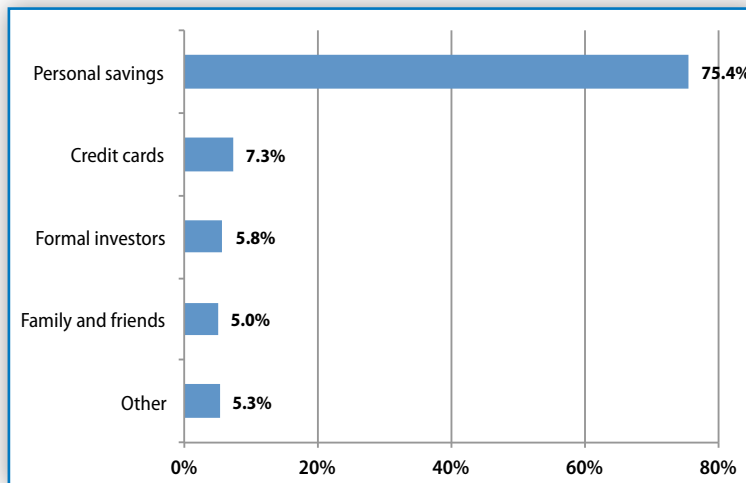


Source: BBR Survey

Access to capital

The survey respondents reported that on average 75 percent of the capital used when they started or purchased their business came from their personal savings (**Figure 18**). Further, 61 percent of the respondents utilized only personal savings. An additional 29 percent utilized personal saving along with other sources. In total, 90 percent of the survey respondents utilized personal saving to start or acquire their business.

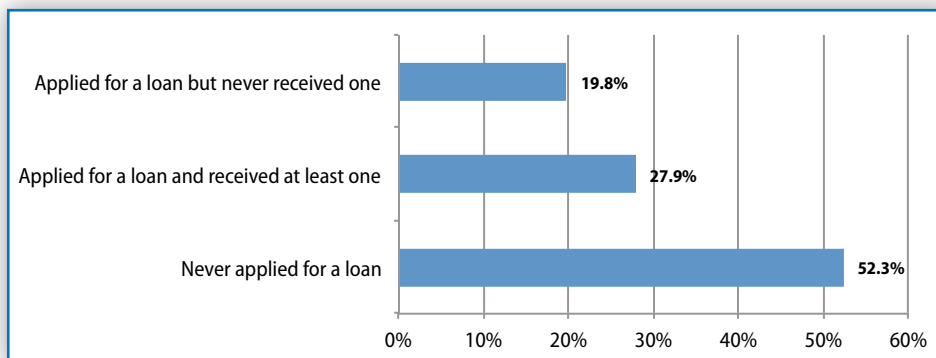
Figure 18. Percentage of funds by source utilized to start or acquire business, Average Percent



Source: BBR Survey

Access to working capital through a business loan or line of credit can help sustain or grow a small business that cannot finance its daily operations through cash flow. **Figure 19** provides a snapshot into whether BOBs are using business loans to finance their operations. Only 28 percent of respondents had applied for and received a loan. Over 50 percent of respondents had never applied for a loan. And almost 20 percent of BOBs indicated that they had applied for a loan but had never received one.

Figure 19. Has this business applied for a business-related loan?



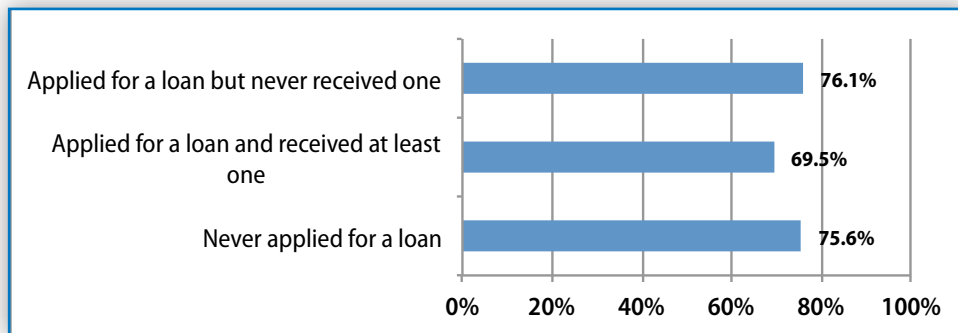
Source: BBR Survey

Characteristics, continued ...

The percentage of funds utilized from personal savings to start or acquire the survey respondents' businesses did not differ substantively across the respondent's loan status.

Figure 20 shows that the respondents who applied for and received a loan obtained about 70 percent of their funds from personal savings. By comparison those who applied and did not receive a loan and those who never applied obtained about 76 percent from personal savings.

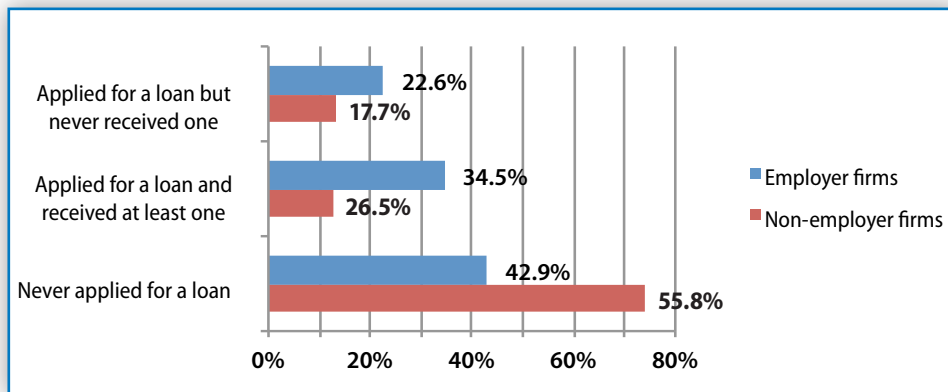
Figure 20. Percentage of funds from personal savings utilized to start or acquire business, by loan status, average percent of personal savings



Source: BBR Survey

Figure 21 reveals that non-employer firms are significantly less likely to have applied for a loan compared to employers, and further, among those who have applied, non-employers are less likely to have received a loan.

Figure 21. Has this business applied for a business-related loan? Employers vs. non-employers



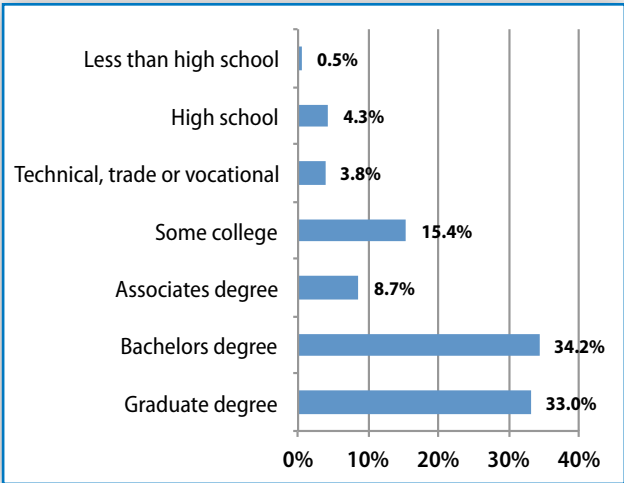
Source: BBR Survey

Demographics of the Black business owner

Black business owners are well educated

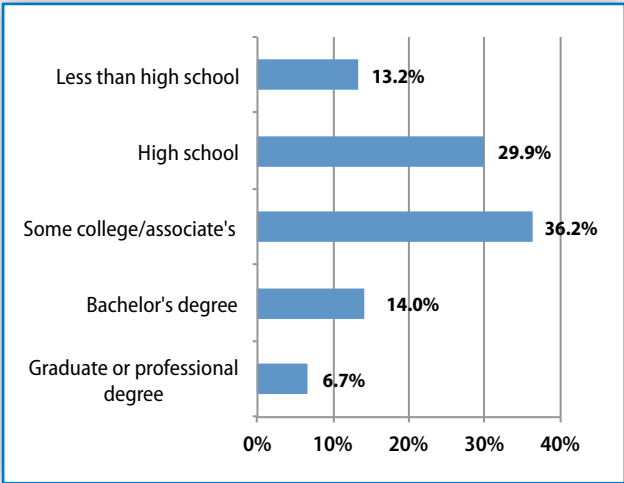
Figure 22 shows that about 67 percent of the business owners in the BBR survey had a bachelor's or graduate degree and 91 percent had at least some college. Overall, the Black business owners surveyed had more education than the general Black population 25 years and older in Texas. Census data show that only 21 percent of Texas Blacks have a bachelor's degree or higher, while 57 percent have some college education, with or without a degree (see **Figure 23**). Previous evidence indicating a positive relationship between education and business performance is strong (van der Sluis, van Praag, and Vijverberg 2004, 2005; Weaver, Dickson, and Solomon 2006).

Figure 22. Highest degree or level of education completed



Source: BBR Survey

Figure 23. Census data on educational attainment of Texas Black population 25 years or older

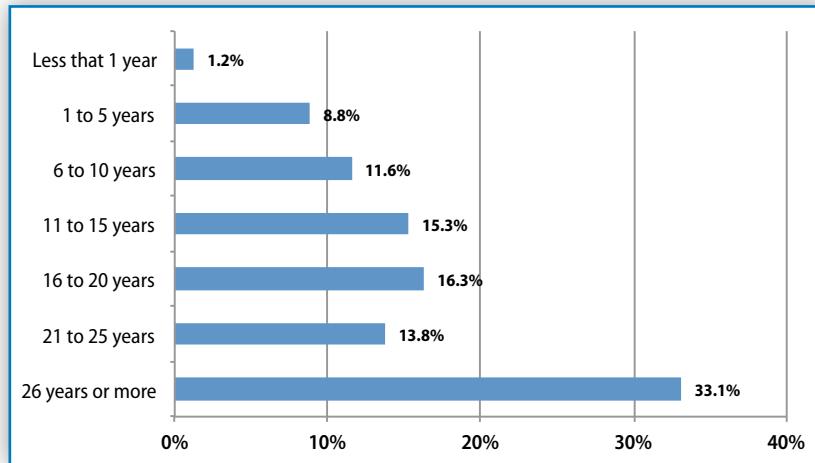


Source: BBR Survey

Black business experience

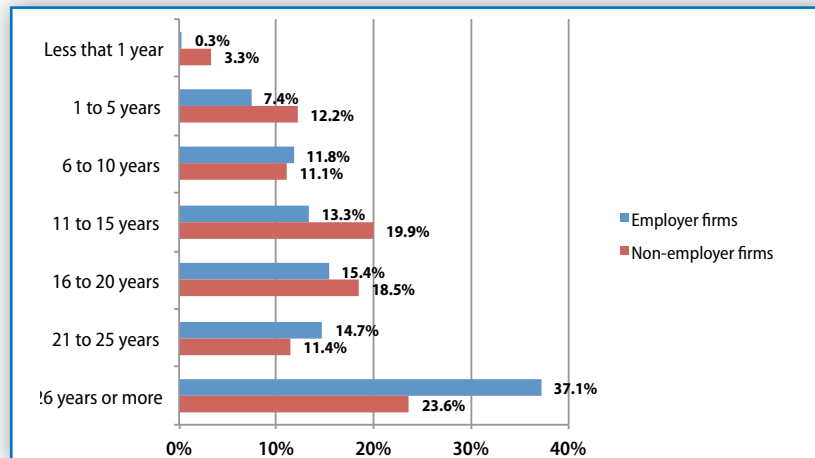
Figure 24 shows that about 47 percent of the business owners in the BBR survey had more than 20 years of experience in their current business. Notable, however, in **Figure 25** is that owners of non-employer firms are significantly less likely to have that much experience in their current business (24 percent vs. 37 percent). In fact, 15 percent of non-employer owners have five or fewer years with their current business compared to approximately eight percent of employers.

Figure 24. Total years of experience in current business



Source: BBR Survey

Figure 25. Total years of experience in current business, Employers vs. Non-Employers

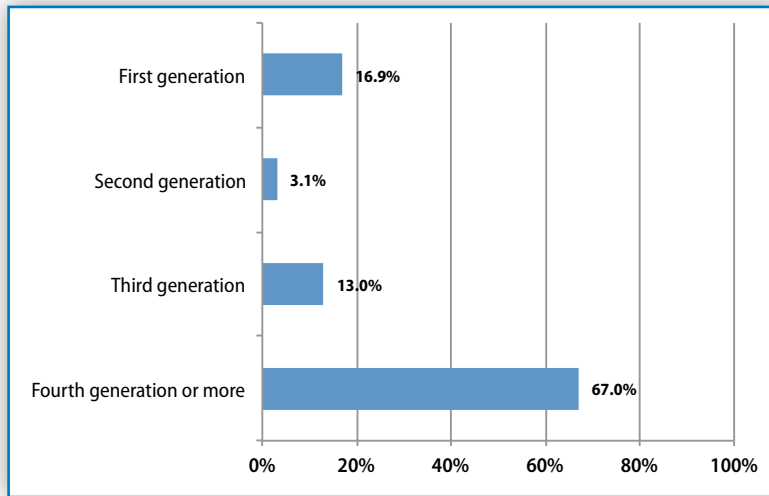


Source: BBR Survey

Black immigrant business owners

The BBR survey asked respondents about their origin of birth to examine the extent of Black immigrant business ownership in Texas. Black immigrant business owners were defined as individuals of any origin, identifying as primarily Black, born outside the United States (first generation¹), and currently owning a business in Texas. Native or U.S.-born Black business owners were defined as Black individuals who were born in the United States (second generation and beyond²) and own a business in Texas. While it was expected that most respondents would be fourth generation (or more), almost 17 percent were first-generation immigrants born outside the U.S., indicating a significant population of Black-owned immigrant businesses in Texas.

Figure 26. What generation of Black American are you?



Source: BBR Survey

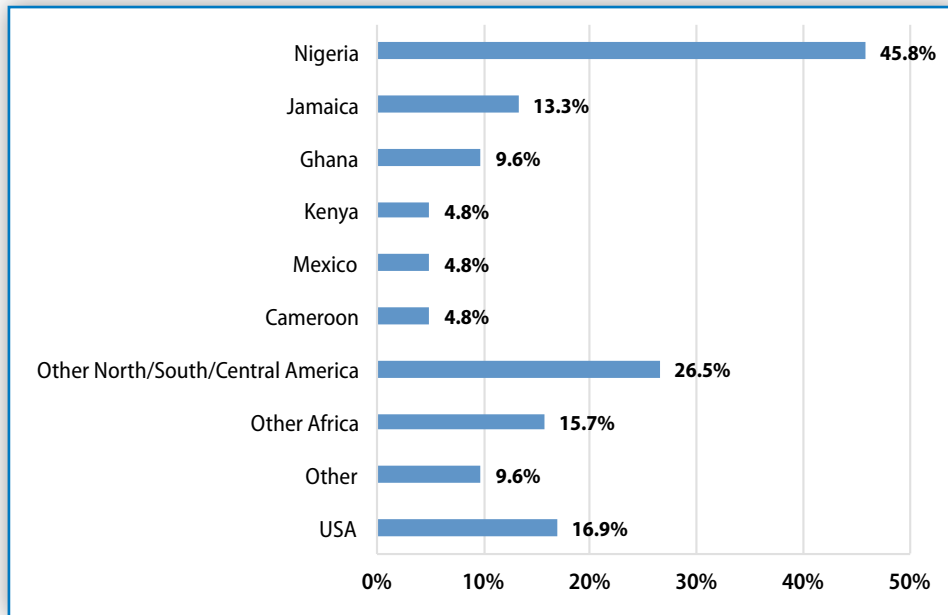
¹ A first-generation immigrant business owner is defined as someone born outside the U.S. and who can be a naturalized U.S. citizen, legal immigrant, or undocumented immigrant.

² A second-generation business owner is defined as someone born in the U.S. with at least one foreign-born parent. A third-generation business owner is defined as someone born in the U.S. with both parents born in the U.S.

Demographics, continued ...

Figure 27 shows the distribution of responses to the question about country of origin for those who responded that they were first- or second-generation immigrants. African nations, especially Nigeria, appear frequently.

Figure 27. Country of origin

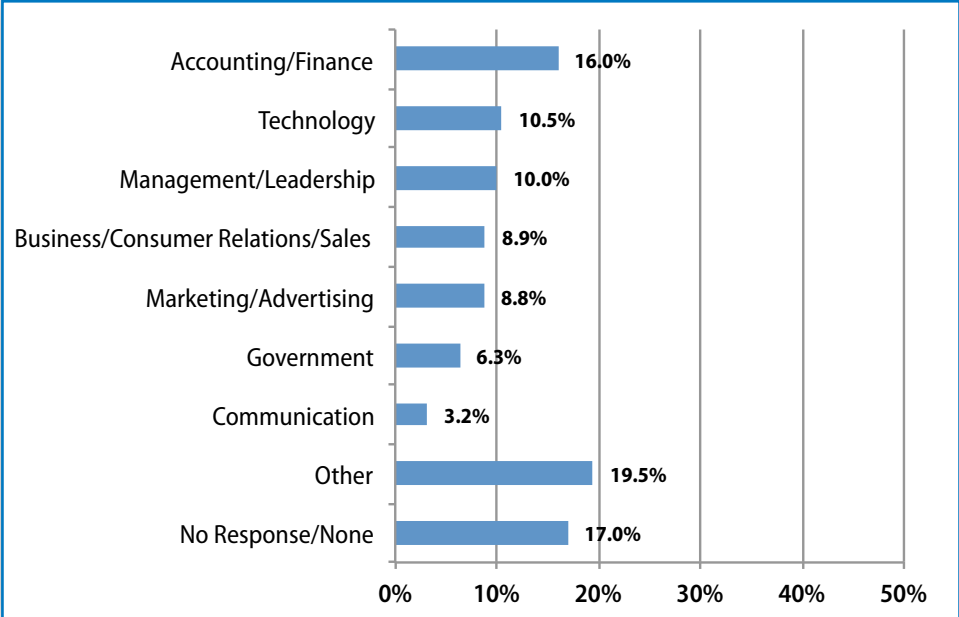


Source: BBR Survey

Training needs

Survey respondents were asked about their top three training needs, and to rank these needs in order of importance, with the first listed being the most important, the second the next-most important, and the third being the next-most important. Because the question was open-ended, responses were coded by type of training need. The training needs most frequently listed first by respondents (of highest importance) are presented in **Figure 28**. Survey respondents listed accounting and finance training more often than any other response among those listed first (listed first by 16 percent of respondents). The next most-frequently cited first-mentioned training needs were technology (10.5 percent) and management and leadership (10 percent).

Figure 28. Top training needs (first mentioned)

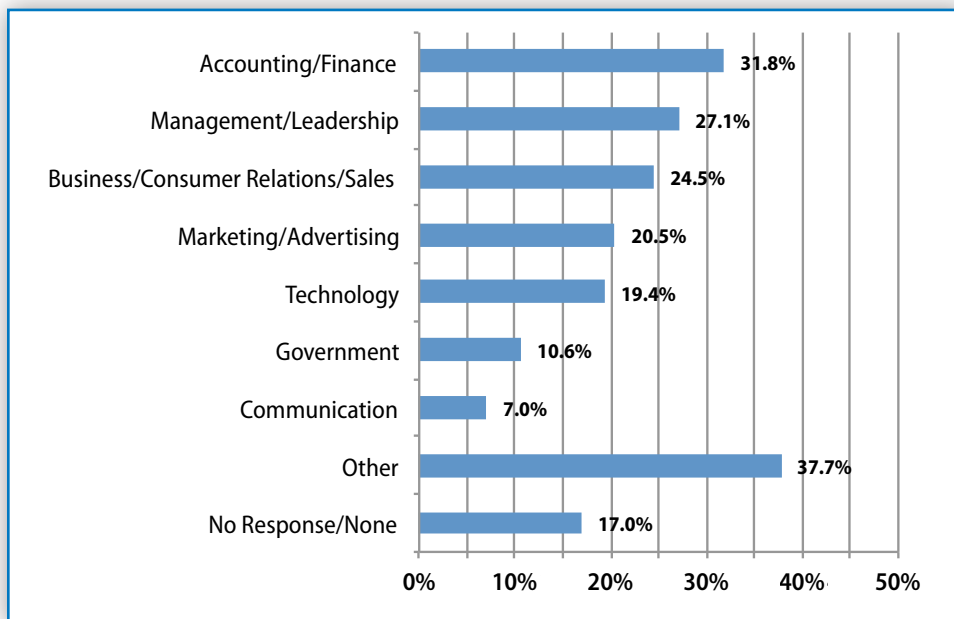


Source: BBR Survey

Training Needs, continued ...

Figure 29 lists the frequency of all training needs mentioned by respondents, in any priority. Again, it shows that accounting/finance training needs appear most frequently among needs mentioned, mentioned in any rank position by almost 32 percent of those surveyed, followed by management/leadership (27 percent) and business/consumer relations/sales training needs. Training needs mentioned within the “Other” category in **Figures 25** and **26** include, for example, safety, time management, various industry-specific training, and general/nonspecific training. Although the respondents were asked about their top-three training needs, on average, they provided 1.8 responses.

Figure 29. Frequently mentioned training needs, all mentions, any priority

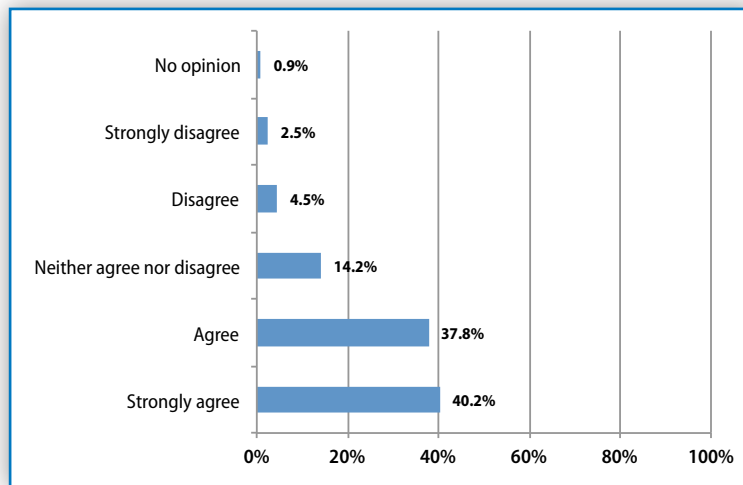


Source: BBR Survey

Procurement opportunities

Figure 30 shows that 76 percent of the survey respondents agreed/strongly agreed that understanding the political system (local, state, and federal) was a critical factor in the success of their businesses. About 10 percent disagreed or strongly disagreed with this statement, while about 14 percent did not have an opinion or were neutral.

Figure 30. Understanding the political system is a critical factor in the success of this business

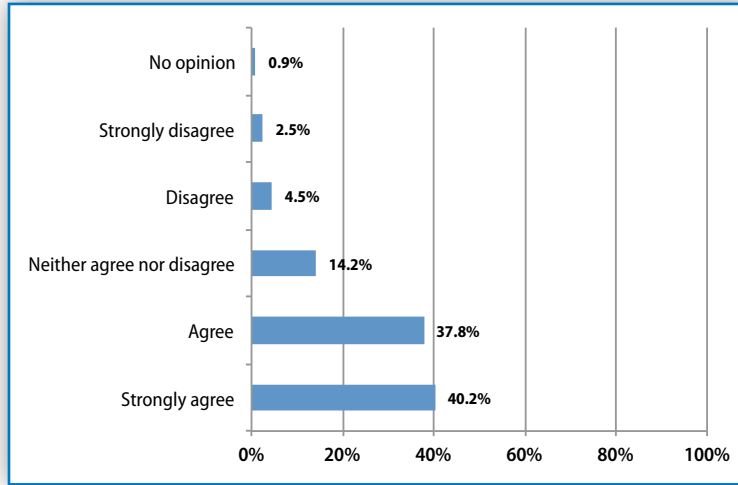


Source: BBR Survey

Survey recipients were asked if Black-owned businesses have less access than other businesses to important decision makers for government contracting (procurement) opportunities.

Figure 31 displays broad agreement with that statement, with 79 percent agreeing/strongly agreeing, and only 7 percent disagreeing/strongly disagreeing.

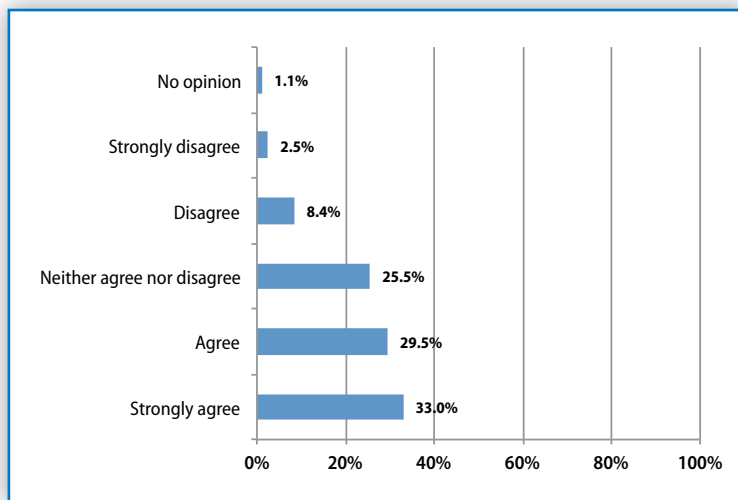
Figure 31. Black-owned businesses have less access than other firms to important decision makers on government contracting opportunities



Source: BBR Survey

More survey respondents agreed/strongly agreed (62.5 percent) than disagreed/strongly disagreed (11 percent) that Black-owned businesses were unfairly excluded from participating in government contracting (procurement) opportunities more often than non-Black-owned businesses (see **Figure 32**).

Figure 32. Black-owned businesses are unfairly excluded from participating in government contracting opportunities more often than non-Black-owned businesses

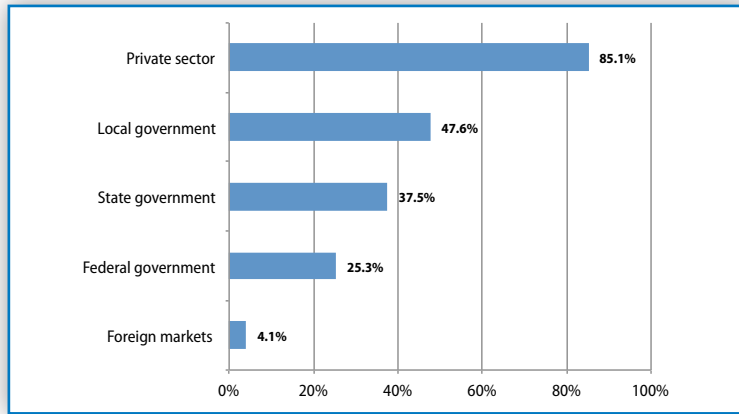


Source: BBR Survey

Procurement Opportunities, continued ...

Figure 33 shows that the private sector was an important customer for Black-owned businesses in Texas. Indeed, 85 percent of the survey respondents indicated that they had done business with the private sector in the past year. This is in contrast to those who indicated they had done business with local government (48 percent), state government (37 percent), or federal government (25 percent).

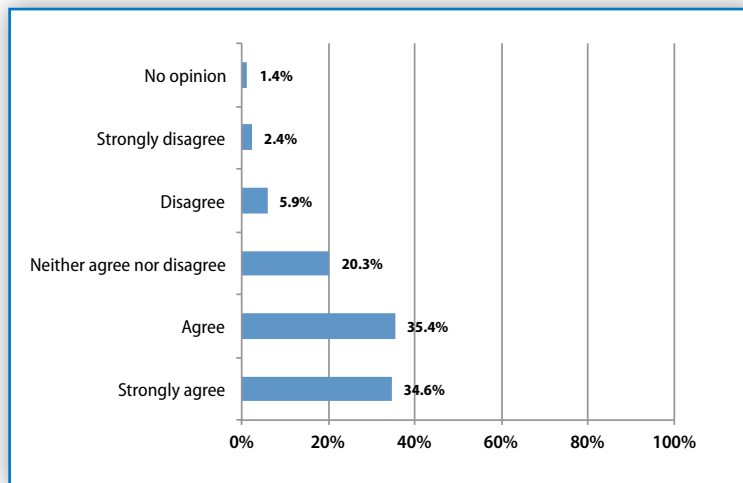
Figure 33. All sectors you have done business with since January 2012 (multiple responses allowed)



Source: BBR Survey

Figure 34 shows that more survey respondents agreed/strongly agreed (70 percent) than disagreed/strongly disagreed (8 percent) that Black-owned businesses were unfairly excluded from participating in private sector contracting (procurement) opportunities more often than non-Black-owned businesses.

Figure 34. Black-owned businesses are unfairly excluded from participating in private sector contracting opportunities more often than non-Black-owned businesses



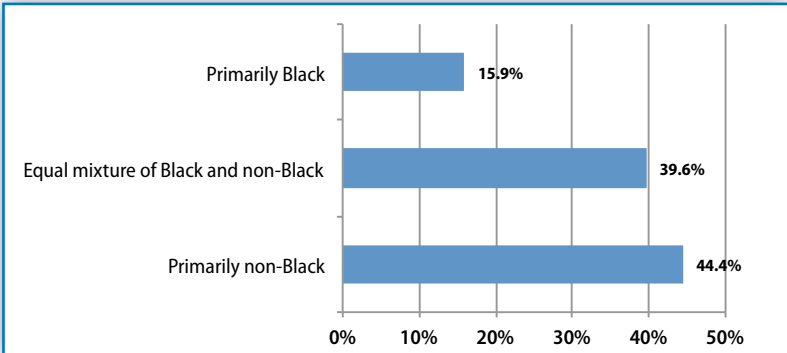
Source: BBR Survey

Black-owned businesses have racially diversified customers and employees

Black-owned businesses have racially diversified customers

The BBR survey asked whether the majority of the respondents' customers were primarily Black, an equal mixture of Black and non-Black, or primarily non-Black. **Figure 35** shows that about 40 percent of the respondents reported that their customers were an equal mixture, and 44 percent said they had primarily non-Black customers. Only 16 percent of the businesses in this survey sold goods or services predominantly to Blacks. These results indicate that BOBs are fairly well integrated into the mainstream business environment and that there is little evidence of an "enclave" phenomenon in which BOBs are selling goods and services primarily to Black customers.

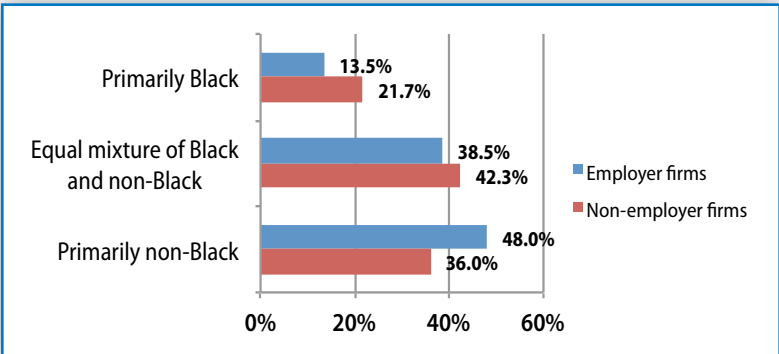
Figure 35. The majority of the customers of business are:



Source: BBR Survey

However, non-employer firms are somewhat less integrated into the mainstream business environment than employers. As seen in **Figure 36**, the distribution for non-employers includes proportionately more businesses with primarily Black customers (22 percent vs. 14 percent) and fewer businesses with primarily non-Black customers (36 percent vs. 48 percent).

Figure 36. The majority of the customers of business are: (by Employer vs. Non-Employer)

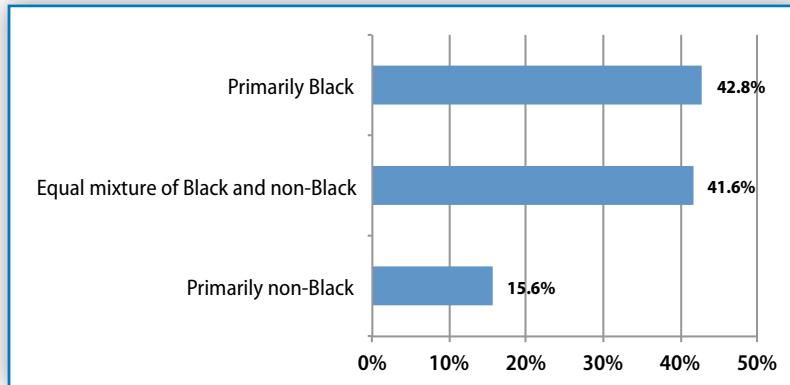


Source: BBR Survey

Black-owned businesses hire mainly black employees

Among Texas Black-owned businesses with employees (n=635), a slight plurality (43 percent) responded that the majority of employees in their business were Black (**Figure 37**). Nearly 42 percent reported that they employ an equal mixture of Black and non-Black employees.

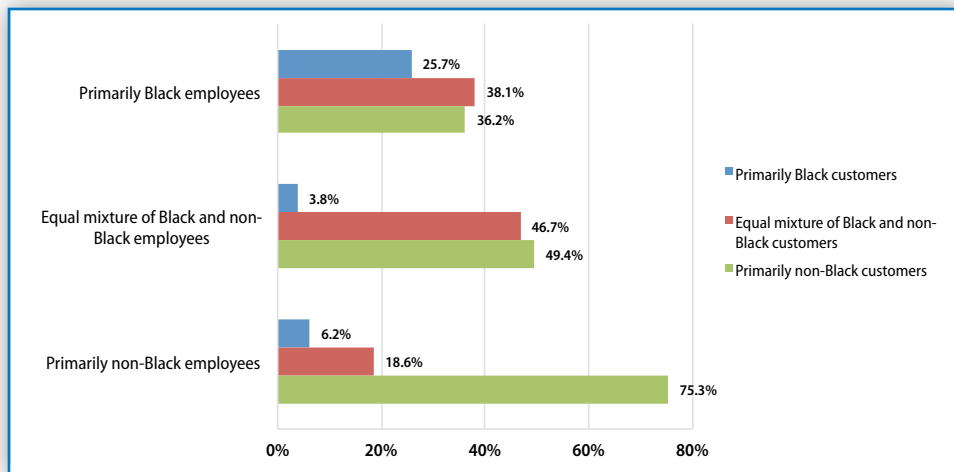
Figure 37. The majority of employees of this business are:



Source: BBR Survey

Is a Black-owned business whose employees are primarily Black more likely to have primarily Black customers? **Figure 38** shows the cross tabulation of responses to the question about BOBs' racial identity of employees and customers. Among BOBs with mostly non-Black employees, the vast majority of customers are non-Black (75 percent). Among businesses with primarily Black employees, the distribution of customers is much more uniform, but the percentage with primarily Black customers is lower than those with a mixed or primarily non-Black customer base. While it is difficult to correlate the two variables, it seems clear that BOBs serve a broad base of customers that extends beyond a Black enclave.

Figure 38. Majority of employees and majority of customers

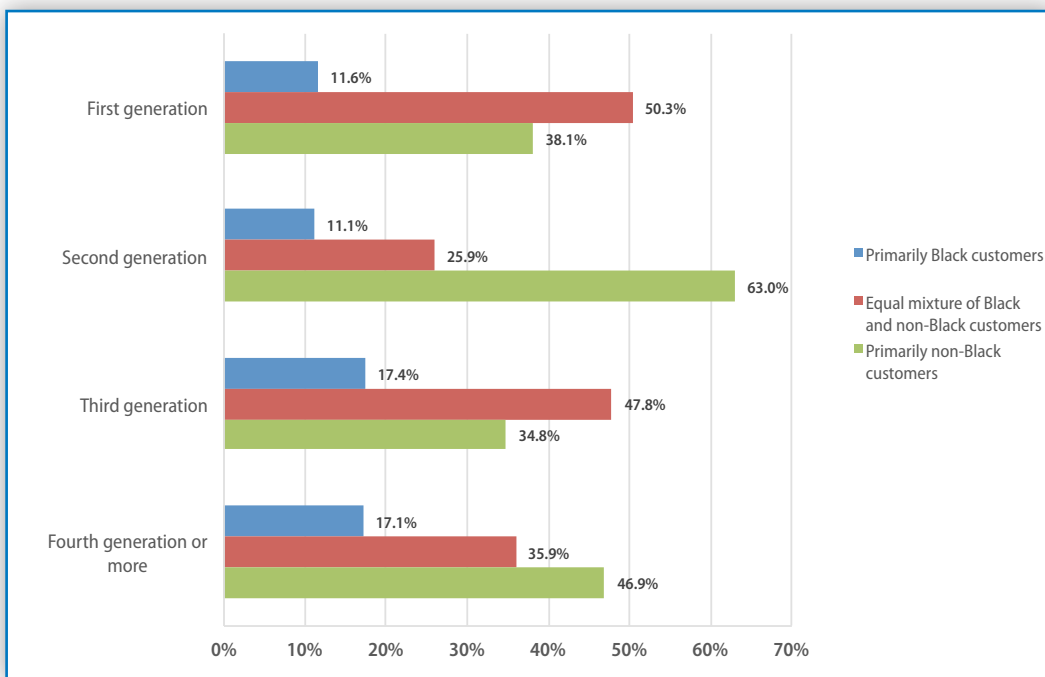


Source: BBR Survey

Employee and Customer Ethnicity, continued ...

At the same time, the data show immigrant Black business owners (first- or second-generation) are a bit more aggressive in selling products or services to a mainstream customer base than third- or fourth-generation Black business owners. Figure 39 reveals that fewer businesses owned by first-generation and second-generation immigrants sell goods and services to a primarily Black customer base (about 11 percent) than do their more established peers (about 17 percent).

Figure 39. Customer base by respondent's generational status

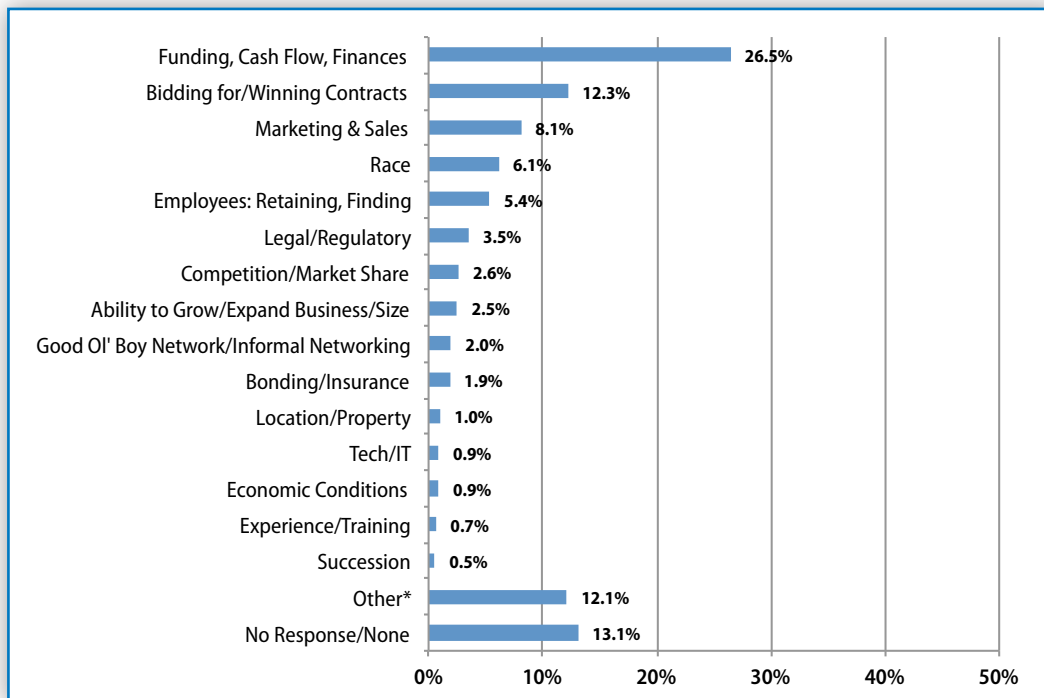


Source: BBR Survey

Major challenges facing Black-owned businesses

BOB survey respondents were asked in an open-ended question to rank the top three major challenges facing their business. BBR research staff coded the answers and grouped them by topic. **Figure 40** presents the first-mentioned responses (highest ranked).

Figure 40. Major challenges facing BOBs, ranked by 1st mention



* No responses in the "Other" category were mentioned by more than 1 percent of the respondents.

Source: BBR Survey

The most frequently mentioned response concerned issues related to funding, cash flow, and finances (26 percent of responses). Understandably, typical challenges mentioned here included "access to loans" and "lines of credit."

Bidding for/winning contracts was the second-most frequently mentioned top-ranked challenge to their firm (12 percent). Respondents frequently reported a lack of opportunities provided by local and state governments for pursuing both public and private contracts, as well as issues related to sub-versus prime contracting. Responses such as "excluded from procurement from City of _____," "procuring government contracts," and "unable to become the major contractor, only sub," are a sample of a broad selection of similar responses.

The third-most frequently mentioned challenge was marketing/sales (8 percent). Responses in this category often mentioned "marketing" and "sales" and others that related to reaching more customers.

Also of note were such responses as "growing/diversifying client base."

Major Challenges, continued ...

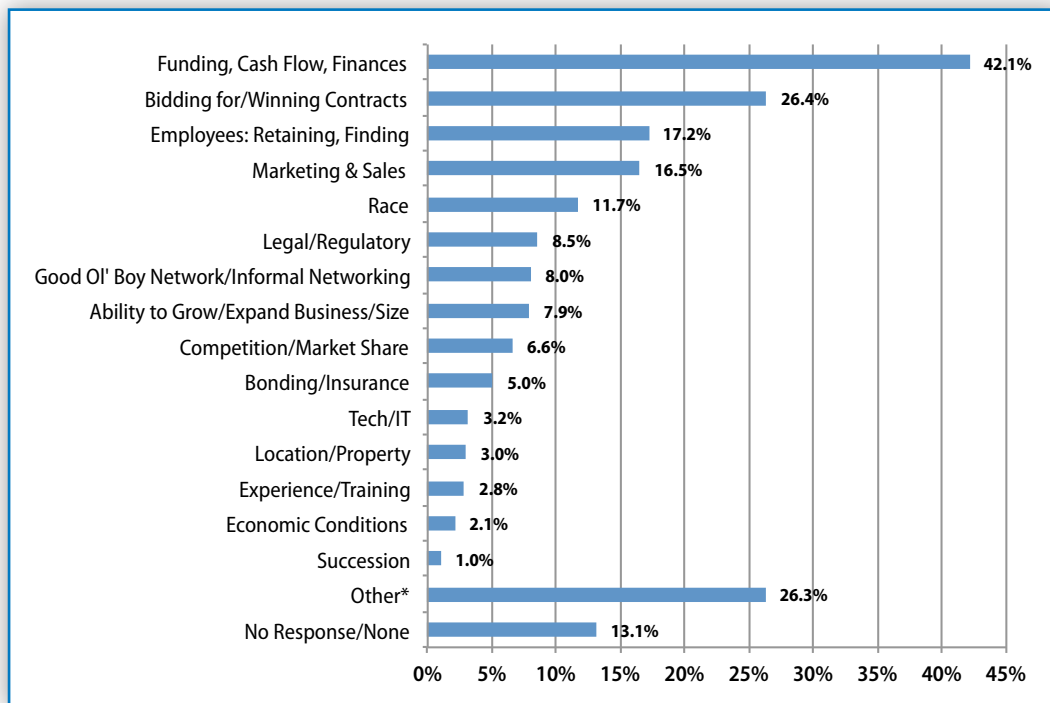
Respondents also mentioned “race” as a top- ranked challenge (6 percent), while others illuminated the various permutations of the racial issue faced by BOBs, including “ability to compete on jobs (token bid invites),” “profiling (stereotyping),” and “not given the opportunity to bid because prime contractors don’t look at us.”

While responses related to the “good ol’ boy network” and informal networking were relatively less frequent than other categories of responses, what was particularly notable about them was their homogeneity. The majority of this category of response either featured “good ol’ boy system,” “political connections,” or “access to decision makers,” and many responses featured all of them.

Figure 41 ranks all responses to the challenges question, in any position (1st, 2nd, or 3rd). Responses related to funding/cash flow/finances again appear of most concern to respondents, as they did in **Figure 40**.

Among all mentions, funding/cash flow/finances constituted 42 percent of all responses. Bidding for/winning contracts appeared in 26 percent of the responses, followed by finding and retaining employees (17 percent) and marketing and sales (16 percent). Although the respondents were asked about their top-three challenges, on average, they provided 1.9 responses.

Figure 41. Major challenges to your business (all mentions)

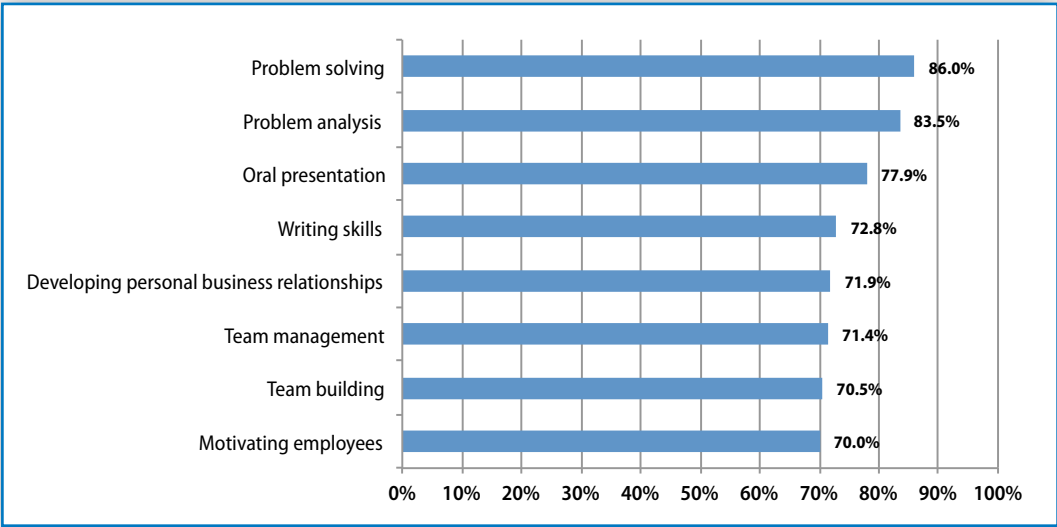


* No responses in the “Other” category were mentioned by more than 1 percent of the respondents.

Skills of Black-owned business owners

Texas Black-owned business owners perceive themselves as being highly proficient across a range of business skills. **Figure 42** shows the percentage of respondents that rated themselves as either “very good” or “excellent” with other possible choices of “good,” “fair,” or “poor.” The skills for which the most owners of Black businesses in the survey assessed themselves as at least “very good” included problem solving and analysis (86 percent and 84 percent, respectively). Team management, team building, and motivating employees were rated as at least “good” by the fewest BOBs, but even those skills garnered percentages for “very good” and “excellent” close to 70 percent.

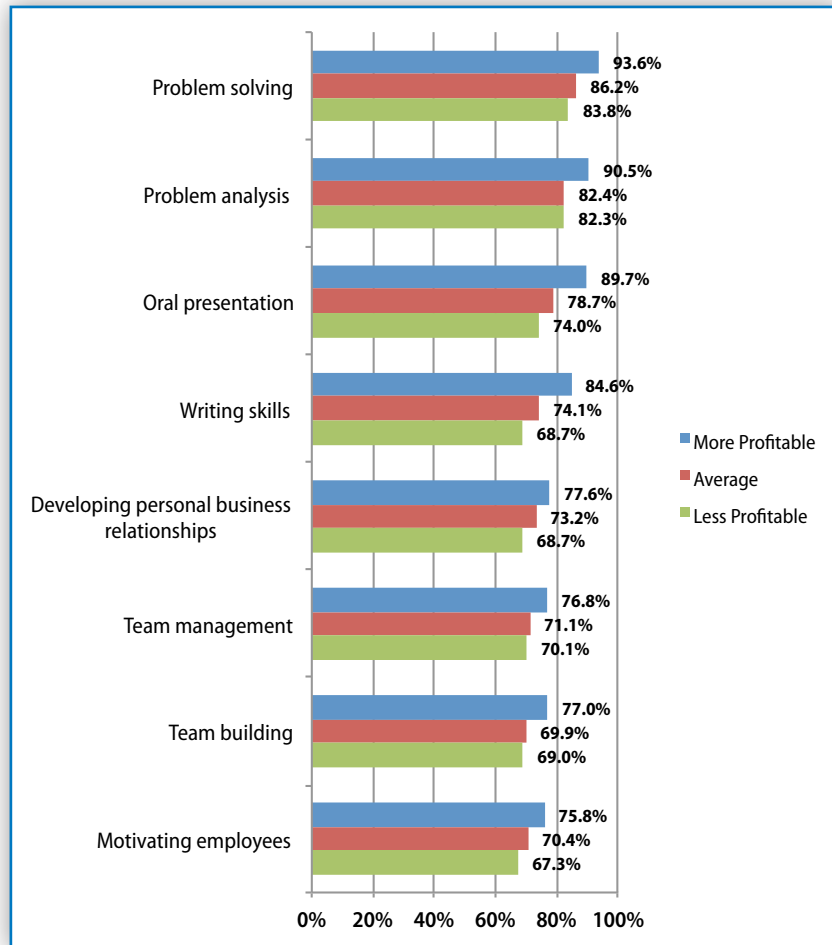
Figure 42. Self-assessed skill levels



Source: BBR Survey

Figure 43 reveals, however, that BOBs who perceive themselves to be less profitable than other businesses in their industry are significantly less likely to assess themselves to be “very good” or “excellent,” a pattern that holds for all business skills covered by the BBR survey.

**Figure 43. Self-assessed skill levels, by perceived profitability
(Percent Very Good or Good)**



Source: BBR Survey

Conclusions:

Improving Black-Owned Business Performance in Texas

This survey highlighted a number of aspects of the business climate in which owners of Black-owned Texas businesses work. From the BBR survey findings:

- ▶ The number of Black-owned businesses in Texas is growing (according to Census data, up 74 percent between 2002 and 2007).
- ▶ Most Texas BOBs are small and smaller than the average Texas firm. Among BBR respondents, 85 percent reported that their businesses employ ten or fewer people. Census data indicate that Non-employer firms constitute 95 percent of Black-owned businesses in Texas.
- ▶ Black owners of businesses who responded to the survey are much more educated (>90 percent have some college) than Blacks in the general population over 25 years of age (57 percent have some college) in the state.
- ▶ Most BOBs in the survey belong to a service industry (72 percent), with the Professional-Scientific-Technical Service sector being the most common at 28 percent. Twenty-two percent of the businesses are in the construction sector.
- ▶ BOBs are well integrated into their local economies. They report hiring a mix of non-Black and Black employees, and selling to a mix of non-Black and Black customers.
- ▶ Despite their relatively small size, many BOBs in the survey have been able to remain in business for years, with about 50 percent of the survey respondents reporting that they have been in business for more than 10 years.
- ▶ Non-employer firms make up a decreasing proportion of BOBs as the age of the business increases. When BOBs are five years of age or less, non-employers constitute 43 percent of such organizations. For BOBs in existence more than 15 years, that non-employer proportion drops to 22 percent, a level that continues to decline further as the business ages. This is consistent with other business research that shows that businesses that start out with employees have a higher probability of survival than businesses that begin without employees.
- ▶ Texas Black-owned business owners perceive themselves to be highly proficient across a range of business skills. However, the BOBs who perceive themselves to be less profitable than other businesses in their industry are significantly less likely to assess themselves to be “very good” or “excellent” across all business skills covered by the BBR survey.

Conclusions, continued ...

- ▶ Twenty-eight percent of the respondents had applied for and received a business loan. More than 50 percent of the respondents had never applied for a loan. And almost 20 percent of the respondents reported that they had applied for a loan but had never received one. Furthermore, non-employer firms are significantly less likely to have applied for a loan compared to employers, and further, among those who have applied, non-employers are less likely to have received a loan.
- ▶ Seventy-five percent of Black-owned businesses in the survey had at least one HUB or other minority business certifications. However, about one-third of respondents only had a single certification. In general, non-employer firms in the survey lag employers relative to HUB and other minority business certifications, achieving parity only with state certifications. Employers have significantly more local and federal certifications than do non-employer firms.
- ▶ A majority of the respondents agreed or strongly agreed that understanding the political system is a critical factor in the success their businesses (76 percent) and that BOBs, in general, have less access than other firms to government decision makers for the purposes of procurement opportunities (79 percent). Further, a majority of the respondents also agreed or strongly agreed that BOBs were unfairly excluded from participating in government contracting opportunities (63 percent) and private sector contracting opportunities (70 percent).
- ▶ In general, survey respondents believe their businesses to be less profitable than their peers in the same industry. This perception is significantly more common among non-employer firms than among those with employees.
- ▶ The top training needs and biggest current challenges to the respondents' businesses are related to accounting and finance. Sales and marketing is another function mentioned as both a training need and a business challenge.

Despite confidence in their skills as business people and relatively high levels of educational attainment, Black owners of businesses in the BBR survey still perceive significant barriers to growing their firms and achieving the profitability level of their industry peers. This is especially true for non-employer firms, who constitute 95 percent of Black-owned businesses in Texas.

Conclusions, continued ...

Key challenges and barriers to growth emerged from the survey that policy makers and business leaders should address in order to improve the growth and performance of Black-owned businesses in Texas:

- **Goal 1:** Focus policy on improving access to financial capital and financial training for Black entrepreneurs.
- **Goal 2:** Encourage Black entrepreneurs planning new businesses to do so with a level of capitalization and scope that allows them to start their business as a team with employees rather than starting out as solo practitioner without employees.
- **Goal 3:** Target BOBs in construction and the service sector (including professional, scientific, and technical services) with information about obtaining financial capital and continuing educational opportunities in business topics (finance, accounting, management, sales, and marketing) as well as notifications about local and federal HUB/minority certifications.

This survey hopefully will contribute to the strengthening of Black-owned business performance in Texas by highlighting important aspects of the conditions, barriers, and opportunities facing them.

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Appendix: Sample Characteristics and Survey Methodology

The methodology employed in the BBR survey consisted of standard, accepted research procedures, methods, and techniques (including obtaining survey approval from the University's Institutional Review Board). Consequently, subject to the research design parameters, survey results should be considered reliable, valid, and generalizable to the targeted universe of Black-owned businesses.

Sampling Frame

Data were collected by means of questionnaires mailed to the owners and chief executives of a sample of Texas businesses designated as being Black-owned. Four different databases constituted the collective sampling frame containing 6,993 (non-duplicated) businesses. All of these businesses were mailed a questionnaire in the late fall of 2013. A brief description of each of the four databases is presented below.

- **Database 1** was provided by the Texas Statewide Historically Underutilized Business (HUB) Program of the Office of the Texas Comptroller of Public Accounts.
- **Database 2** was provided by the Texas Department of Transportation.
- **Database 3** was provided by InfoGroup, a national data and aggregator list company that licenses databases from a wide variety of different sources.
- **Database 4** was the member directory of registered Black-owned businesses in the Beaumont, Colin County, Abilene, San Antonio, Houston, Odessa-Permian Basin, Dallas, and Austin areas provided by the Texas Association of African-American Chambers of Commerce (TAAACC).

In preparing addresses in each database for use in the survey, information was compiled regarding business name, full address (street address, city, and zip code), and full contact information (contact person, telephone number) for each business.

Questionnaire Development

The questionnaire was developed in two stages. First, the BBR team developed and produced a first draft of the questionnaire. Certain questions similar to those from the Census Bureau's Survey of Business Owners were included so that possible sample bias could be assessed. Second, TAAACC's directors reviewed the questionnaire draft. In each stage, analyses of the draft questionnaire were undertaken and changes made to improve it.

Self-administered Mail Survey

The BBR mailed a questionnaire to 6,993 Black-owned businesses, but 1,235 were returned by mail because of incorrect addresses (out of scope), were out of business, were businesses not minority- or majority-owned by a Black person, or were non-profit organizations. Thus, *5,758 surveys were mailed to businesses in the target population for this survey*. The University's Office of Survey Research carried out all mailing logistics.

Survey Procedure

The mail-out/mail-back phase of the BBR survey of Black-owned businesses in Texas began in November 2013 (with the first questionnaire mail-out), and continued through December of 2013. The first mailing consisted of an introductory cover letter, a questionnaire, and a pre-paid (addressed) business reply envelope. This was followed by a reminder post-card and a reminder cover letter, questionnaire, and pre-paid (addressed) business-reply envelope. Thus, three communications were directed at the sampled businesses.

In general, firm-related communications focused on the importance of the survey and the need for a response, the sponsoring institution, and the confidentiality of responses.

Response

The response rate for the survey is estimated to be 15.9 percent. The response rate is estimated as the number of valid responses received from businesses owned by a person who self-identified as a Black person and who reported owning 51 percent or more of the company, divided by the number of surveys mailed to Black-owned businesses with correct addresses. The BBR mailed a total of 6,993 surveys, of which 597 were returned to us with a bad address, 512 were not minority- or majority-owned Black businesses, 117 were not majority-owned (51 percent or greater) by a Black person, and nine were from an invalid business like a non-profit. Additionally, seven surveys were returned blank. We received 914 valid survey responses. In general, then, the response rate is estimated to be 15.9 percent (914/5751).

Analysis

Completed questionnaires were checked for consistency and redundancy, and responses entered into a database for analysis. Codes used for open-end question responses were derived following development of a comprehensive categorization scheme. The resulting data were analyzed using standard statistical techniques.

Survey of
TEXAS BLACK-OWNED BUSINESSES

BBR Bureau of
Business Research



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