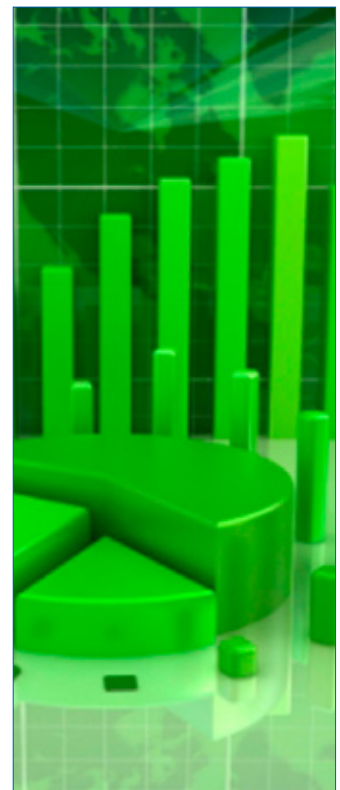
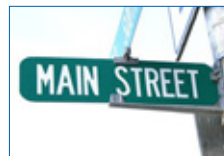


Annual Report of the Office of Economic Research FY 2013



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. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy 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. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and an office in Washington, DC, support the Chief Counsel's efforts.

For more information on the Office of Advocacy, visit <http://www.sba.gov/advocacy>, or call (202) 205-6533. Receive email notices of new Office of Advocacy information by signing up on Advocacy's Listservs at <http://www.sba.gov/updates>.

Foreword

We are pleased to present this fiscal year 2013 annual report for the Office of Advocacy's Office of Economic Research (OER). Advocacy places a high value on sound economic research, which contributes to sound policies for small business. The office strives to provide our small business stakeholders with timely and actionable information about the current economic climate.

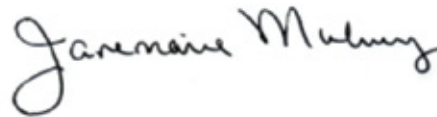
Throughout more than 35 years of existence, the Office of Advocacy has conducted economic research as part of its core mission. In 1976, Public Law 94-305 assigned to Advocacy the task of examining "the role of small business in the American economy and the contribution which small business can make in improving competition."

In FY 2013, Advocacy produced 22 contract and internal research reports on a variety of topics including access to capital, small business exporters, entrepreneurship, and minority- and women-owned businesses. In addition to these reports, Advocacy economists participated in roundtables and conferences about various small business topics. They also conducted 16 presentations to audiences that included policymakers, academics, and/or the media. These outreach efforts are important for small business stakeholders around the country.

We appreciate our stakeholders' contributions in support of the best possible research on small business, and we look forward to hearing from you in the year ahead. For more information about the Office of Advocacy, visit our website at www.sba.gov/advocacy.



Winslow Sargeant, Ph.D.
Chief Counsel for Advocacy



Janemarie Mulvey, Ph.D.
Director, Office of Economic Research

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Introduction

One of the Office of Advocacy's earliest mandates was "to examine the role of small business in the American economy and the contribution which small business can make in improving competition, encouraging economic and social mobility...and providing an avenue through which new and untested products and services can be brought to the marketplace."¹

In fiscal year 2013, small business was a focus of national debates about economic growth, job creation, and the regulatory environment. The Office of Economic Research responded to the pressing need for new and timely information on small firms by making more information readily available in updated formats and by commissioning research on key topics that included:

- Access to Capital
- Employment
- Entrepreneurship and Innovation
- International Trade
- Minority- and Women-owned Businesses
- Regulations
- Retirement and Pensions

Within these topics was an emphasis on the the Great Recession's impact on small businesses in terms of access to capital, retirement assets, and exporting. As FY 2013 marked the fourth year of the economic recovery, Advocacy's research focused on factors affecting slow employment growth among small businesses since the recovery began. Another study examined the role of federally funded research in promoting entrepreneurship and innovation. In addition, Advocacy continued quarterly updates of its two recurring publications, the *Small Business Quarterly Bulletin* and the *Quarterly Lending Bulletin*.

The Office of Advocacy continues to partner with the U.S. Census Bureau to collect and report important data on small business. Advocacy economists process and analyze the data to produce easy-to-understand statistical tables and reports downloadable from Advocacy's website.

In FY 2013, the Office of Advocacy also provided information in easily accessible matrix form about its work products and resource partners. *Small Business Data Resources* is a listing of online databases by federal agency or private sector source and topic. The listed databases are hotlinked to their websites and keyed to the small-business-related topics on which they provide information.

In FY 2013, Advocacy's Office of Economic Research advanced the mission of providing small business research that is timely and relevant for use by the many stakeholders interested in small business contributions to the U.S. economy.

¹ Public Law 94-305, 1976.

Advocacy Research Reports, FY 2013

In FY 2013, Advocacy's Office of Economic Research produced reports on a variety of topics ranging from small business growth following the Great Recession, access to capital, small business exporters, and entrepreneurship. This section lists Advocacy's FY 2013 research reports by topic area. Visit the Office of Advocacy website for research reports available online: <http://www.sba.gov/advocacy/7540/>.

Advocacy Research

Access to Capital

Quarterly Lending Bulletin, First Quarter 2013

[http://www.sba.gov/sites/default/files/files/SBL_2013Q1\(1\).pdf](http://www.sba.gov/sites/default/files/files/SBL_2013Q1(1).pdf)

Victoria Williams, Office of Advocacy

Small businesses saw gradual strengthening in the overall economy in the first quarter of 2013 as borrowing conditions continued to improve. Borrowing by small firms contracted slightly during December 2012 and March 2013. In general, bankers reported stronger demand along with eased bank lending policies for business loans. (June 2013)

Quarterly Lending Bulletin Fourth Quarter 2012

[http://www.sba.gov/sites/default/files/files/SBL_2012Q4\(2\).pdf](http://www.sba.gov/sites/default/files/files/SBL_2012Q4(2).pdf)

Victoria Williams, Office of Advocacy

Financial conditions were supportive of economic growth, and borrowing conditions for small firms gradually improved. The declines in small business lending stabilized, and small business borrowing turned up for the first time in 10 quarters. (March 2013)

Quarterly Lending Bulletin Third Quarter 2012

http://www.sba.gov/sites/default/files/files/SBL_2012Q3.pdf

Victoria Williams, Office of Advocacy

Small business loans outstanding in all loan sizes declined less than 1 percent in third quarter 2012. Declines were less pronounced in small business commercial real estate loans. Small business demand for loans was unchanged on net. (December 2012)

Quarterly Lending Bulletin Second Quarter 2012

http://www.sba.gov/sites/default/files/files/SBL_2012Q2.pdf

Victoria Williams, Office of Advocacy

U.S. economic activity increased in the first half of 2012 at a slower pace than at the end of 2011, and total lending to small firms inched downward. The decline was generated primarily by commercial real estate loans; in general, the climate was supportive of economic growth. (November 2012)

Small Business Lending in the United States, 2012

<http://www.sba.gov/advocacy/7540/719311>

Victoria Williams, Office of Advocacy

Research Summary No. 414

This annual report reviews the small business lending activities of institutional depository lenders, including commercial and cooperative banks, federal and state savings banks, and savings and loan associations. The lenders are ranked on their overall small business lending nationally and on a state-by-state basis. Small business loans are defined as business loans under \$1 million; micro business loans are those under \$100,000; macro loans are those between \$100,000 and \$1 million. Two data sources are used—Consolidated Reports of Condition and Income or “Call Reports” and reports required under the provisions of the Community Reinvestment Act—CRA reports. Please note that the report examines total small business lending and does not distinguish SBA lending from total lending. (December 2012)

How Did the Financial Crisis Affect Small Business Lending in the United States?

<http://www.sba.gov/advocacy/7540/361941>

Rebel A. Cole

Research Summary No. 399

This study uses data from numerous sources from the period 1994-2011 to analyze bank lending to U.S. firms. The study finds that bank lending to U.S. businesses declined significantly following the crisis; and the decline hit small firms harder than large firms. Please note that the report examines total small business lending and does not distinguish SBA lending from total lending. (November 2012)

Employment

Geography of Employment Growth: The Support Networks for Gazelle IPOs

<http://www.sba.gov/advocacy/7540/623801>

Martin Kenney and Donald Patton

Research Summary No. 412

In this research study, Martin Kenney and Donald Patton explore the network of support for gazelles that take their companies public through initial public offerings (IPOs). This entrepreneurial support network, or ESN, is composed of law firms, venture capitalists, and lead investment bankers—the core of the team needed to launch an IPO. The authors examine the overall impact of these actors on gazelles’ employment growth. (May 2013)

Entrepreneurship and Innovation

Patent Trends Among Small and Large Innovative Firms During the 2007-2009 Recession

<http://www.sba.gov/advocacy/7540/608931>

1790 Analytics, LLC

Research Summary No. 411

According to the National Bureau of Economic Research (NBER), the Great Recession commenced in December 2007 and ended in June 2009. This research examines whether observable differences in patent behavior between small and large firms occurred during this 2007-2009 period. (May 2013)

Product Innovations by Young and Small Firms

<http://www.sba.gov/advocacy/7540/621871>

Jose Plehn-Dujowich

Research Summary No. 408

This study investigates whether the age of a business is linked to innovation and productivity—specifically whether young firms have an edge on older firms. Previous research on innovation has shown that small businesses are more efficient at innovation than large businesses. (May 2013)

University Science Faculty Ventures into Entrepreneurship

<http://www.sba.gov/advocacy/7540/586391>

Audretsch Economic Research

Research Summary No. 409

This study surveys university scientists about their entrepreneurial activities, employing a database of scientists funded by grants from the National Science Foundation (NSF). (May 2013)

Utilizing the Kauffman Firm Survey to Predict Growth in Venture Size and Scope among Small Firm Startups: 2004 Startups Tracked through 2008

<http://www.sba.gov/advocacy/7540/556421>

Timothy Bates, Alicia Robb, and Simon Parker (Beacon Economics LLC)

Research Summary No. 405

The study identifies some of the factors that predict growth among startups and very young ventures and provides insights into small firm growth dynamics. The researchers find two key features of small business startups likely to endure, operate profitably, and expand: 1) the involvement of capable entrepreneurs possessing appropriate human capital for operating their business; and 2) the assembly of, and access to, sufficient financial capital to achieve efficient scale to exploit opportunities. (April 2013)

General

Quarterly Bulletin, First Quarter 2013

http://www.sba.gov/sites/default/files/files/SBQB_2013q1.pdf

Brian Headd, Office of Advocacy

Demand for small business loans, the employment size of start-ups, employment in small firms, and proprietors' income were all on the rise. Included are charts that show that small firms were rising from the depths of the most recent downturn. (June 2013)

Quarterly Bulletin, Fourth Quarter 2012

http://www.sba.gov/sites/default/files/files/SBQB_2012q4pdf.pdf

Brian Headd, Office of Advocacy

Small businesses across America continued to show modest improvement as the nation pushed through its economic recovery. The most promising indicators of Advocacy's analysis were the declining number of bankruptcies and proprietors' growing income. (March 2013)

Quarterly Bulletin, Third Quarter 2012

http://www.sba.gov/sites/default/files/files/SBQB_2012q3.pdf

Brian Headd, Office of Advocacy

The small business data showed positive movement, with business bankruptcies on the decline and an increase in income for business owners. Two metrics that showed mixed results were the growth of self-employed individuals and tightening loan demand. (December 2012)

International Trade

The Impact of Credit Availability on Small Business Exporters

<http://www.sba.gov/advocacy/7540/556961>

Joe Peek

Research Summary No. 404

A dramatic drop in U.S. exports during the 2008-2009 financial crisis and Great Recession stimulated interest in investigating the relationship between trade finance and small business exports. This research examines how and why the tightening of credit affected small firm exporters. (April 2013)

Minority- and Women-owned Businesses

The Viability of the Minority-Oriented Venture Capital Industry

<http://www.sba.gov/advocacy/7540/622441>

William E. Jackson III and Timothy Bates

Research Summary No. 407

The number of minority-oriented equity capital funds grew significantly during the period of the 1990s. Early financial performance was positive; but more recently, these funds have invested in fewer minority-owned businesses and have increased their non-minority-owned high-tech investments. This research examines these equity capital funds and public support for these funds to evaluate these changes. (May 2013)

Venture Capital, Social Capital and the Funding of Women-led Businesses

<http://www.sba.gov/advocacy/7540/561201>

JMG Consulting, LLC & Wyckoff Consulting, LLC

Research Summary No. 406

Entrepreneurs need access to financial capital to fund their ventures, and those with marketable products may seek financing from venture capital (VC) firms. This study focuses on women entrepreneurs' access to equity funding and the influence of social networks on venture capital investment decisions. (April 2013)

Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech Firms

<http://www.sba.gov/advocacy/7540/584931>

Alicia Robb, Marin Consulting, LLC

Research Summary No. 403

The availability of capital is crucial for small business startup, survival, and growth. This study investigates how the youngest small firms, especially high-tech firms and firms owned by women and minorities, were financed during the evolving financial environment of the Great Recession. (May 2013)

Regulations

Research on State Regulatory Flexibility Acts

<http://www.sba.gov/advocacy/7540/632371>

Microeconomic Applications

Research Summary No. 413

The purpose of this research study on states' regulatory flexibility activity was to evaluate to what extent states went to mitigate the impact of state regulations on small businesses. The Regulatory Flexibility Act (RFA) at the federal level requires agencies to minimize the impact of their regulations on small entities without compromising their regulatory objectives. States' versions of the RFA, the research indicates, are/have been following different paths to the requirements and are having mixed results. (May 2013)

Independent Regulatory Agency Compliance With The Regulatory Flexibility Act

<http://www.sba.gov/advocacy/7540/610401>

Microeconomic Applications, Inc.

Research Summary No. 410

The Office of Advocacy is often asked if there is a noticeable difference in the RFA compliance patterns of independent agencies compared with executive-branch agencies. Independent federal agencies are subject to the Regulatory Flexibility Act, as amended. Because they fall outside of presidential authority, however, independent agencies are not subject to executive orders concerning regulatory impact analysis or to OMB review of analysis. The objective of this study is to characterize and assess the RFA compliance of independent agencies. (May 2013)

Retirement and Pensions

Financial Viability and Retirement Assets: A Look at Small Business Owners and Private Sector Workers

<http://www.sba.gov/advocacy/7540/372811>

Jules Lichtenstein, Office of Advocacy

Research Summary No. 401

Income security during retirement may depend on whether you were a business owner or a wage and salary worker. The accumulation of differential patterns of assets and participation in individual retirement plans can be a function of your status as a business owner or an employee. (December 2012)

Retirement, Recessions, and Older Small Business Owners

<http://www.sba.gov/advocacy/7540/372751>

Tami Gurley-Calvez, Kandice Kapinos, and Donald Bruce

Research Summary No. 400

The researchers' key findings are that small business owners nearing retirement (over age 50) are significantly less likely than employees to have pension or retirement plans, including 401(k)s, on their current job. This finding occurs regardless of the extent of self-employment in an individual's career (whether part-time, full-time, or for a short or long period). At the same time, small business owners tend to have significantly greater IRA and Keogh plan savings than employees, even after controlling for key sociodemographic characteristics. A third key finding is that small business owners and employees have similar retirement savings behavior during recessions; the probability of having a pension and the value of IRA/Keogh accounts are largely stable through recessions. (December 2012)

Data Access

While not a data collection agency, in fiscal year 2013 the Office of Advocacy continued to organize downloadable data related to small businesses and provide links to data on its website, www.sba.gov/advocacy/849/12162. Data cover businesses with and without employees—employer and nonemployer firms. About three-quarters of firms are nonemployer firms; but the larger share of receipts and payroll are in employer firms. The bulk of employer firms are small firms, but data are also provided on large firms for comparison purposes.

Researchers, policymakers, small business trade associations, small businesses and members of the media interested in small business can use the data to investigate the status and role in the economy.

Small Business Data Resources Tool

<http://www.sba.gov/advocacy/847/125821>

The Office of Advocacy provides a valuable research tool for small business researchers and policymakers—a hyperlinked listing of Small Business Data Resources. The tool lists databases by federal agency or private sector source, hyperlinks the listings to their websites, and keys them to the small-business-related topics on which they provide information—all in two one-page summaries. Key topics include demographics, employment, exports, finance, firm size data, firms and establishments, health care, income and sales, pension coverage, taxes, and training.

Although the list includes many of the most widely used data resources, Advocacy notes that inclusion of any specific database on the list does not constitute an endorsement by the Office of Advocacy or the Small Business Administration.

Downloadable Firm Size Data

<http://www.sba.gov/advocacy/849/12162>

The Office of Advocacy posts firm size data from a number of sources on its website. For research purposes, Advocacy defines a small business as an independent business having fewer than 500 employees, but many firm size classes are provided. Firm size data for employer firms are from the Statistics of U.S. Businesses (SUSB), Business Dynamics Statistics (BDS), and Business Employment Dynamics (BED) programs. Data on nonemployers are available from the Nonemployer Statistics (NE) program. The programs are annual and are from the U.S. Census Bureau, except for the Business Employment Dynamics, which is quarterly and from the U.S. Department of Labor, Bureau of Labor Statistics. BDS and BED have an age component. All of the programs are essentially based on the universe of private-sector businesses.

Detailed data on owner and business characteristics are available from the U.S. Census Bureau's Survey of Business Owners (SBO) in years ending in 2 or 7. The SBO, which is part of the Economic Census, provides data and a microdataset for activity in 2007. With data collection now beginning for economic activity in 2012, data will be available in 2015 (see www.census.gov/econ/sbo/ for details).

Statistics of U.S. Businesses

The Office of Advocacy partially funds the U.S. Census Bureau to produce annual data by employer firm size in the Statistics of U.S. Businesses (SUSB) program. SUSB's employer data include the number of firms, number of establishments, employment, and annual payroll for employment firm size categories by location and industry. Receipts and data by receipt size class are available in Economic Census years (i.e. years ending in 2 or 7). A firm is defined as an aggregation of all establishments owned by a parent company (within a geographic location and/or industry) with some annual payroll. The data consist of static and dynamic data. Static data provide a "snapshot" of firms at a point in time. Dynamic data follow firms from year to year and report job creation and destruction and business births and deaths. Much of the data is listed in time series format with some data available as far back as 1988, but the latest data available lags a few years.

The industry detail available is at the NAICS 6-digit level, meaning that data is available for over 1,000 industries. Geographic data for some of the data items is also available at the county and metropolitan statistical area level, but data this detailed tends to be aggregated to a relatively high industry level.

Business Dynamics Statistics

Business Dynamics Statistics (BDS) include employer firm data by firm age.² BDS contains annual data for states, major industry, and some metropolitan statistical area data. While a relatively new datasource, Census provides a plethora of historical data for BDS with data going back to 1977, but the most current data lags a few years. BDS provides the number of firms, establishments, and employment, along with some dynamics, so firm and job creation can be analyzed.

Business Employment Dynamics

Business Employment Dynamics (BED) contains employer firm data with a focus on employment changes from establishment entry, growth, decline, and exit. Much of the information dates to mid-1992.³ The data are quarterly and some establishments may close and reopen during the year. Fortunately, BLS presents the data in two ways to capture the seasonal firms by listing

2 See the background paper, *Business Formation and Dynamics by Business Age: Results from the New Business Dynamics Statistics*, by John Haltiwanger, Ron Jarmin, and Javier Miranda for information on the data program, www.ces.census.gov/docs/bds/bds_paper_CAED_may2008_dec2.pdf

3 See the background paper *Measuring Job and Establishment Flows with BLS Longitudinal Microdata* by Timothy Pivetz, Michael Searson, and James Spletzer for information about the data program, www.bls.gov/opub/mlr/2001/04/art2full.pdf.

establishment openings—establishments that did not exist in the previous quarter—and establishment births—establishments that did not exist in the previous year. Classifications are similar for closings and deaths. Some employment data are by firm size such as job creation and destruction, but much of BED is establishment-based and does not contain an establishment or firm size component. Annually, BED provides the number of firms and employment by firm size.

Fortunately, BED quarterly data only lags a few quarters, giving users the best insight into current small business conditions.

Nonemployer Statistics

Nonemployer data provides the number of firms and receipts by state, metropolitan statistical area (MSA), and county with industry detail. A nonemployer firm is defined as one that has no paid employees, has annual business receipts of \$1,000 or more (\$1 or more in the construction industries), and is subject to federal income taxes. Note that nonemployer businesses can have more than one owner and are a business. Thus, referring to the nonemployer data as self-employed data (which is the occupation of someone) is not entirely accurate. Nonemployers account for about three percent of business receipts, and about three-quarters of all businesses. The nonemployer section also contains capital expenditure data for both employers and nonemployers.

With nonemployer and SUSB data in recent years, the U.S. Census Bureau has begun using noise infusion for disclosure avoidance. This allows them to provide more data instead of merely providing a disclosed code for a data cell.