

## The Small Business Economy 2007

U.S. Small Business Administration, Office of Advocacy, 2007. [374] pages

### Purpose and Scope

In this edition of *The Small Business Economy*, the Office of Advocacy reviews the economic environment for small businesses in the year 2006, including the financial and federal procurement marketplaces. New research focuses on minority- and veteran-owned businesses, social entrepreneurship, and pre-venture planning. Advocacy's annual report on implementation of the Regulatory Flexibility Act and the results of Advocacy's initiative to carry regulatory flexibility successes to the state level are summarized. Appendices provide data on small business and regulatory flexibility documents.

### Highlights

#### The Small Business Economy in 2006

Small businesses continued to be at the core of the economic expansion in 2006. A softening housing market seemed reasonably contained in the economy's resilience.

- Output rose, business income and profits were up, and unemployment was down.
- Small firms continued to drive employment in early 2006. A lower employment growth rate, 2.3 percent, occurred in the context of a tightening labor market.
- A review of small business costs showed the small firm share of payroll declining from 47.9 percent in the late 1980s to 45.1 percent in 2004.
- An appendix to this year's report highlights Advocacy's *Quarterly Indicators* publication, which provides current detail on economic indicators that describe the small business economic milieu.

#### Small Business Financing in 2006

As the economy continued to grow at a slower, but still healthy pace, total business borrowing increased from \$562 billion in 2005 to \$753 billion in 2006.

- The rate of increase in nonfarm, noncorporate business borrowing declined slightly, from \$304 billion to \$289 billion over the period.
- Average rates for the smallest, fixed-rate loans reached 8.76 percent in November 2006.
- The volume of initial public offerings increased, while the number declined slightly, indicating an increase in the average size.

#### Federal Procurement from Small Firms

Small firms continued to benefit from the federal government's acquisition of their goods and services.

- The Small Business Administration undertook a thorough data certification and review process and worked with the Office of Federal Procurement Policy to improve the quality and transparency of procurement data.
- Small firms won \$77 billion, or 22.8 percent of a total of \$340 billion in federal government contracts eligible for small business competition in FY 2006.
- The value of awards to small firms through the Small Business Innovation Research program reached an estimated \$1.9 billion in 2006.

#### Minorities in Business

Minority-owned businesses continue to increase their share of the U.S. economy.

- Between 1997 and 2002, firms owned by African Americans had the highest growth rates for several measures, particularly in the number of firms (45.4 percent) and in total receipts (24.5 percent).
- Asians also saw growth in the number of employer firms and in annual payroll.
- Hispanic or Latino-owned firms constituted the largest minority business community.

#### Veteran Business Owners and Veteran-owned Businesses

The Census Bureau's new Characteristics of Veteran-Owned Businesses and of Veteran Business Owners

provide important new data on firms owned by veterans and service-disabled veterans.

- The veteran respondents to the survey represent about 14.5 percent of an estimated 20.5 million total respondent business owners.

- About 812,000 veterans had ownership interests in respondent firms having paid employees, compared with about 2.2 million veterans with ownership interests in respondent firms having no paid employees.

- The firms of veteran respondents are older than U.S. firms overall, on average, and are similar in receipts and employment size, according to the data.

### **Social Entrepreneurship**

Andrew Wolk of Root Cause in Massachusetts describes social entrepreneurship, emerging at the nexus of the public, private, and nonprofit sectors.

- Innovation is a key role of the private sector, providing public goods and services is a role of government, and engaging individuals in action to achieve social goals is a role of the nonprofit sector. Social entrepreneurship has emerged where these roles intersect.

- Case studies of eight specific programs—ITN America, City Year, Benetech, KaBOOM!, New Leaders for New Schools, Resolve to Stop the Violence Program, Outside the Classroom, and Triangle Resident Options for Substance Abusers, Inc.—illustrate social entrepreneurial approaches.

- Louisiana recently founded the first Office of Social Entrepreneurship, which aims to shift the orientation of the state's social services sector to a results-driven approach.

### **Pre-venture Planning**

In any year, about 7 percent of the U.S. working age population is actively engaged in efforts to start a business. Professors William Gartner and Jon Liao provide compelling evidence from the Panel Study of Entrepreneurial Dynamics that business planning can significantly improve an entrepreneur's chances of successfully starting a business.

- Entrepreneurs who started businesses were more likely to complete a business plan than those who were "still active" or had quit the process.

- Entrepreneurs who completed a business plan were six times more likely to start a business than those in the "still active" or "quit the process" groups.

- Those who completed written plans were likely to engage in more start-up activities than those whose plans were unwritten or informal.

### **Regulatory Flexibility Act Implementation, FY 2006**

The Office of Advocacy oversees implementation of the Regulatory Flexibility Act, an important tool requiring federal agencies to systematically review the potential effects of proposed regulations on small entities and to examine alternatives.

- In its annual report of RFA implementation, Advocacy documented savings of \$7.25 billion in foregone regulatory costs in 2006.

- The Office of Advocacy offered model regulatory flexibility legislation for states in 2002. By summer 2007, 37 state legislatures had considered RFA legislation and 22 had implemented it by law or executive order.

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

### **Ordering Information**

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at [www.sba.gov/advo/research](http://www.sba.gov/advo/research).

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