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Economic Pulse

Disparities in Local Business

by Jim Lee

HIGHLIGHTS:

Statistical evidence indicates that underutilization of local Hispanic and women-owned businesses is pervasive and entrenched in Corpus Christi. The disparity gaps for those businesses are the outcomes of their rapid growth in number but not in size, measured by sales or employment. This highlights the importance of developing existing local businesses as opposed to creating more new businesses. An expanded version is available on the digital platform.



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Corpus Christi has earned the reputation of one of the best American cities for small businesses, particularly Hispanic-owned businesses. According to [WalletHub](#), the area’s favorable business climate—second only to Laredo—is attributable to the ease with which to start a business and the high buying power of the Hispanic population.

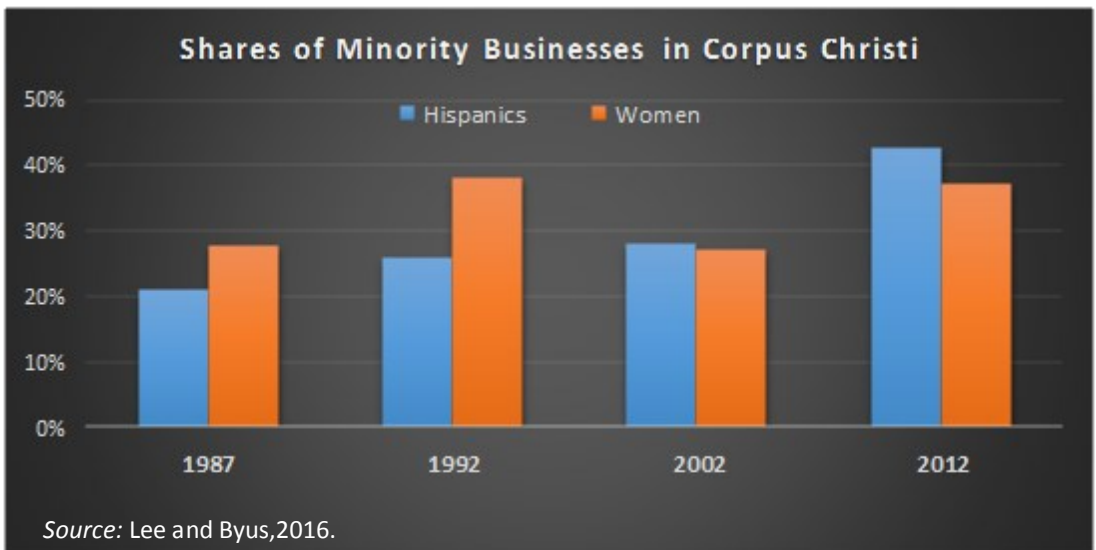
Still quantitative data suggest that local Hispanic and other minority businesses collectively do not earn as much in revenues as their share of the business population suggests. This article summarizes some findings of a report that evaluates the extent of disparity between minority-owned businesses and other businesses .

Disparity Measures

The standard approach in most disparity

studies concerning minority-owned businesses quantitatively compares the extent of their utilization against their availability. The most popular metric is the disparity index, which is the ratio of a measure of business utilization over a measure of business availability in a specific area or market. Business utilization is typically measured by the annual sales volume, and the most common measure of availability is the number of businesses.

The formula for the disparity index is: $(\text{Utilization}) \div (\text{Availability}) = [(\text{Minority Business Sales}) / (\text{Total Area Sales})] \div [(\text{Number of Minority Businesses}) / (\text{Number of Total Businesses})]$. The formula is equivalent to the ratio of minority businesses’ combined share of local business sales over their share of local businesses by number.



Firm Availability in Corpus Christi, % of Total Firms.

	1987	1992	2002	2012
All Firms				
All Minority	23.1%	–	33.4%	49.2%
Hispanic	20.9%	26.0%	28.2%	42.7%
Black	1.2%	1.4%	0.8%	2.1%
Asian & Native American	0.9%	1.1%	4.4%	5.1%
Women	27.7%	38.0%	27.3%	37.1%
Firms with Employees				
All Minority	20.7%	–	18.5%	28.5%
Hispanic	19.0%	–	13.4%	19.6%
Black	0.9%	–	0.8%	1.3%
Asian & Native American	1.2%	–	5.1%	7.5%
Women	17.2%	–	17.8%	16.6%

Source: Lee and Byus, 2016.

The objective of a disparity study is to evaluate the level playing field in the marketplace. The benchmark for the disparity index is one, which indicates the absence of disparity as the utilization of businesses is perfectly proportionate to their availability. An index close to zero indicates very little utilization of those businesses despite their availability. Businesses are considered underutilized if their disparity indexes are remarkably less than one, and overutilized if the indexes are remarkably above one.

Census Statistics

Based on the 2012 Census Survey of Business Owners, which is available at the end of 2015, nearly 43 percent of all local businesses are owned by Hispanics, and over 37% are owned by women. A comparison of the corresponding statistics over the four business census periods beginning 1987 indicates that the shares of minority- and women-owned businesses in the Corpus Christi metro area have grown over the past 25 years or so.

Despite those seemingly high ratios of business formation for local Hispanics and women, they are in fact “underrepresented” when their shares of local business are compared against their shares of the local population. According to the 2014

Census of population, Hispanics or people of Latino origin make up 59% of the population in the Corpus Christi metro area, and 51% of the local population is female. So, these two minority groups by national standards are in fact dominant demographic groups in Corpus Christi.

The majority of local businesses, however, operate without any employees. Most of their owners are basically self-employed. The distribution of business formation also looks different if we focus on employer firms that operate with paid employees. Excluding businesses without employees, then the share of Hispanic business owners in 2012 reduced to below 20%, and the share of female business owners reduced to slightly above 16%. Their shares of all employer firms have in fact remained largely unchanged between 1987 and 2012.

Business Growth

In Corpus Christi, Hispanics, women

and other demographic groups have contributed much to the growth in the total number of businesses. Between 2002 and 2012, the number of firms in the metro area grew by 20%, while the number of Hispanic-owned firms grew by more than 75%, and women-owned firms grew by over 60%. Despite their rapid growth in numbers, the growth of sales among Hispanic- and woman-owned businesses together has trailed the sales growth of other businesses in the area.

The relative sizes of local minority- or women-owned employers have also declined in the past two decades. In terms of the sales volume, the share of all minority employers together was 2% in 2012, as opposed to 3% in 2002 and 4% in 1987. Similarly, the corresponding share of women employers fell from 6% in 1987 to 3% in 2002 and 2% in 2012.

Disparity Index

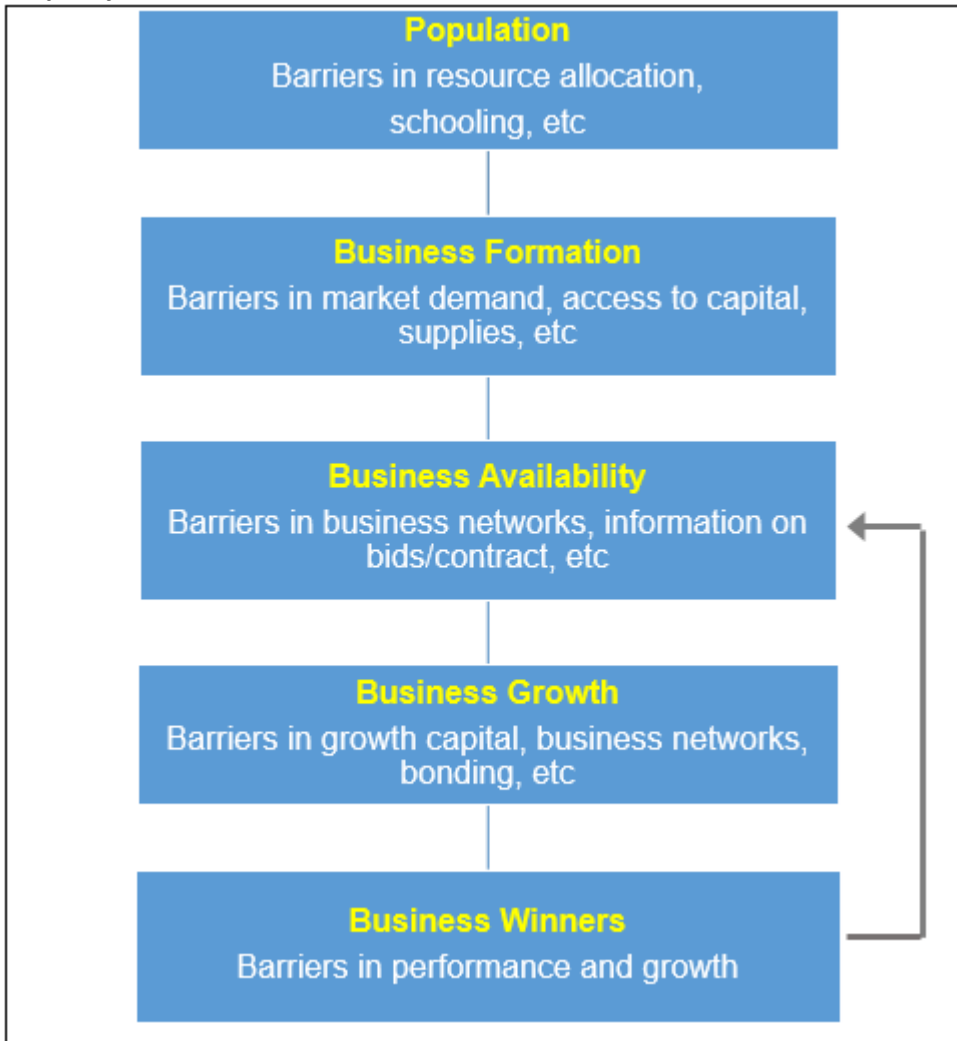
In 2012, minority and female business owners made up nearly half of all firms, but they generated only 3% of the total sales volume in the area. As such, the disparity index indicates that local minority- and women-owned firms together received only 6% ($3\% \div 49\% = 0.06$) of the business sales implied by their availability. The index is similar for the individual minority groups—0.05 for Hispanics and 0.06 for women. All those statistics are remarkably below the benchmark of one, implying significant underutilization of minority- or women-owned firms in the Corpus Christi economy. Their availability is more than 10 times greater than their actu-

Local Business Growth, % Change, 2002-2012.

	All firms		Firms with Paid Employees	
	Number	Sales	Number	Sales
All Firms	19.8%	167.5%	-9.4%	172.1%
All Minority	76.8%	66.8%	39.9%	144.5%
Hispanic	81.5%	52.4%	33.0%	55.1%
Black	200.8%	33.1%	–	–
Asian & Native American	11.0%	101.8%	22.1%	–
Women	62.4%	114.0%	-15.3%	115.0%

Source: Lee and Byus, 2016.

Disparity in Business Formation and Performance.



al market share in business sales.

While evidence of business disparities in the 2012 Census is similar to the observations in the past 3 decades, the indexes appear to exhibit declining trends over time. This means that disparities between the extent of availability and utilization for minority- and women-owned businesses in Corpus Christi have widened.

Economic Traps

Small businesses are the lifeblood of the local economy. And minority

groups collectively make up about half of all business owners in Corpus Christi today.

However, as for their counterparts across the United States, Hispanics and other minority entrepreneurs tend to limit their businesses to small sizes. Those entrepreneurs have persistently faced challenges that are common to many small businesses in addition to their unique factors, such as being new immigrants, and limited access to financial and human capital resources that limit their ability to grow a business or to compete with

larger, national corporations.

Analyses based on the disparity index, which assumes the existence of equal opportunities, should be interpreted with caution. Looking at business sales—the final stage of the economic outcome—may understate the extent of disparity in a market.

Disparity might exist within the general population, in which minority groups and women might receive underinvestment in training and human capital, leading to disparity in productivity or business formation ability. School or community segregation might contribute to disparity in human capital investment.

In workforce employment, disparity might exist in promotions and training. In the process of business formation, potential business owners might be discouraged by anticipated market or lending disparity. Among business owners, barriers in growth capital or business networks might exist to affect the “availability” as well as performance of minority- and women-owned businesses.

Despite inequalities that may prevail in different stages leading to business formation and growth, conventional analysis based on the disparity index is limited to the outstanding population of minority- and women-owned firms, and thus excluding any “discouraged” businesses that have never entered or “deterred” businesses that have left the marketplace altogether due to the possible presence of inequitable treatments. From this perspective, the findings most likely understate the “true” extent of business disparities in Corpus Christi.

References:

Jim Lee and Kent Byus, “[Disparity Study for Corpus Christi and CCRTA](#),” final report submitted to Corpus Christi Regional Transportation Authority, April 2016.
Stanford Latino Entrepreneurship Initiative, [State of Latino Entrepreneurship, Research Report 2015](#).

Historical Comparison of Disparity Indexes.

	1987	1992	2002	2012
All Minority	0.22	–	0.15	0.06
Hispanic	0.22	0.31	0.13	0.05
Black	0.38	0.41	0.31	0.06
Asian & Native American	0.53	0.81	0.24	0.18
Women	0.25	0.38	0.11	0.07

Source: Lee and Byus, 2016.



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