



The Secrets of Gazelles:

Differences Between High Growth and Low Growth African American-Owned Firms

Thomas “Danny” Boston
School of Economics
Georgia Tech



Fundamental Question?

Why do some companies achieve very high rates of growth while others (similarly situated) achieve only status quo growth or no growth?



Question

What percent of American companies will achieve an annual rate of employment growth of 15% or more?

Or

What percent of start-ups will employ 20 workers after 5 years?



Answer!

Only 1 in 20 or about 5%



Why Focus on High Growth Companies?

- There are 1.2 million Black-owned Firms in America (5% of total).
- Less than 1% of all Black-owned firms have revenues greater than \$1.0 million.
- They employ 60% of all workers in Black-owned Firms (450,000).



The Bottom Line?

- Very few Black-owned firms will become Gazelles, but those that do will create significant numbers of jobs.
- High growth companies do not compete on the basis of price, but rather value innovation. Therefore, we must shift our research.
- For Black-owned firms, achieving high growth has depended upon access to government contracting. In the future, it will depend upon greater access to the corporate sector.
- High growth firms operate in all industries, not just high tech.
- The CEOs of high growth firms are not high risk takers. Their characteristics are similar to CEO's of no-growth cos.
- High growth firms migrate towards locations where business opportunities are the greatest, most often to the South.



Growth Classification of Firms

Gazelles (20% or greater annual employment growth over 5 yrs)

Growth-Oriented Firms (1% to 20% annual employment growth)

No-Growth Firms (Less than 1%)



Outline of Presentation

- Historical Overview
- Gazelle Index Survey Results
- Implications and Future Research and Policy



Stages of Black Business Development and Major Research Focus

First Stage

The Enclave Economy-1890's to 1960's

- Major Research Focus -1830's to 1970's

Enumerated the number of firms, described the effects of segregation and the enclave economy on business development.



- An Act of the Georgia Legislature , 1845:

“Section 1. Be it enacted by the Senate and the House of Representatives of the State of Georgia in General Assembly met, and it hereby enacted by the authority of the same, that from and after the first day of February next, each and every white person who shall hereafter contract or bargain with any slave mechanic, or mason, or free person of color, being a mechanic or mason, shall be liable to be indicted for a misdemeanor; and on conviction, to be fined, at the discretion of the court, not exceeding two hundred dollars.”



Racial Disparities in Business Ownership (2002)

Race or Ethnicity	Pop %	Business %		Average Revenue
		No.	Rev.	
White	71%	87%	97.0%	\$1,619,000
Latino	13%	7%	1.0%	\$921,090
Black	12%	5%	.4%	\$735,587
Asian	4%	5%	1.5%	\$961,379
Native American	1%	1%	.1%	\$847,492



Second Stage

Increased Opportunity, Market Access, Human Capital- 1960's to present

- Major Research Focus- 1980's to present

Examine role of personal endowments, business attributes, access to finance, impact of opportunities and constraints on business formation, failure and performance.




Atlanta Leads the Nation in Black Business Formation

- Over the last 20 years Black-owned firms in Atlanta increased by 803% (faster than any other large metro area).
- In 1982 Atlanta had the 7th largest number of Black-owned firms, 7077 (LA= 23,520; NY 20,242).
- By 2002 Atlanta had the 3rd largest number, 63,940 (New York 145,514; Chicago 64,385).



What Accounts for Atlanta's High Formation Rate?

- Government Contracting Opportunities
- Strong Corporate Diversity Programs
- Rapid Income and Population Growth
- Large Black Middle Class
- In-migration of Business Owners
Caused by a Perception of Greater Opportunity



Gazelle Index: National Quarterly Random Survey of 350
Black-owned Firms with 10 to 100 Employees: 2nd Qtr. 2002 to
4th Qtr. 2003.

<u>Category</u>	<u>Pop</u>	<u>Response Rate</u>	
		<u>Number</u>	<u>Percent</u>
Gazelles	823	207	25.2%
Growth	1086	317	29.2%
No Growth	1934	607	31.4%
Total	3843	1131	29.4%



Distribution of Small Black-owned Firms by Growth Class

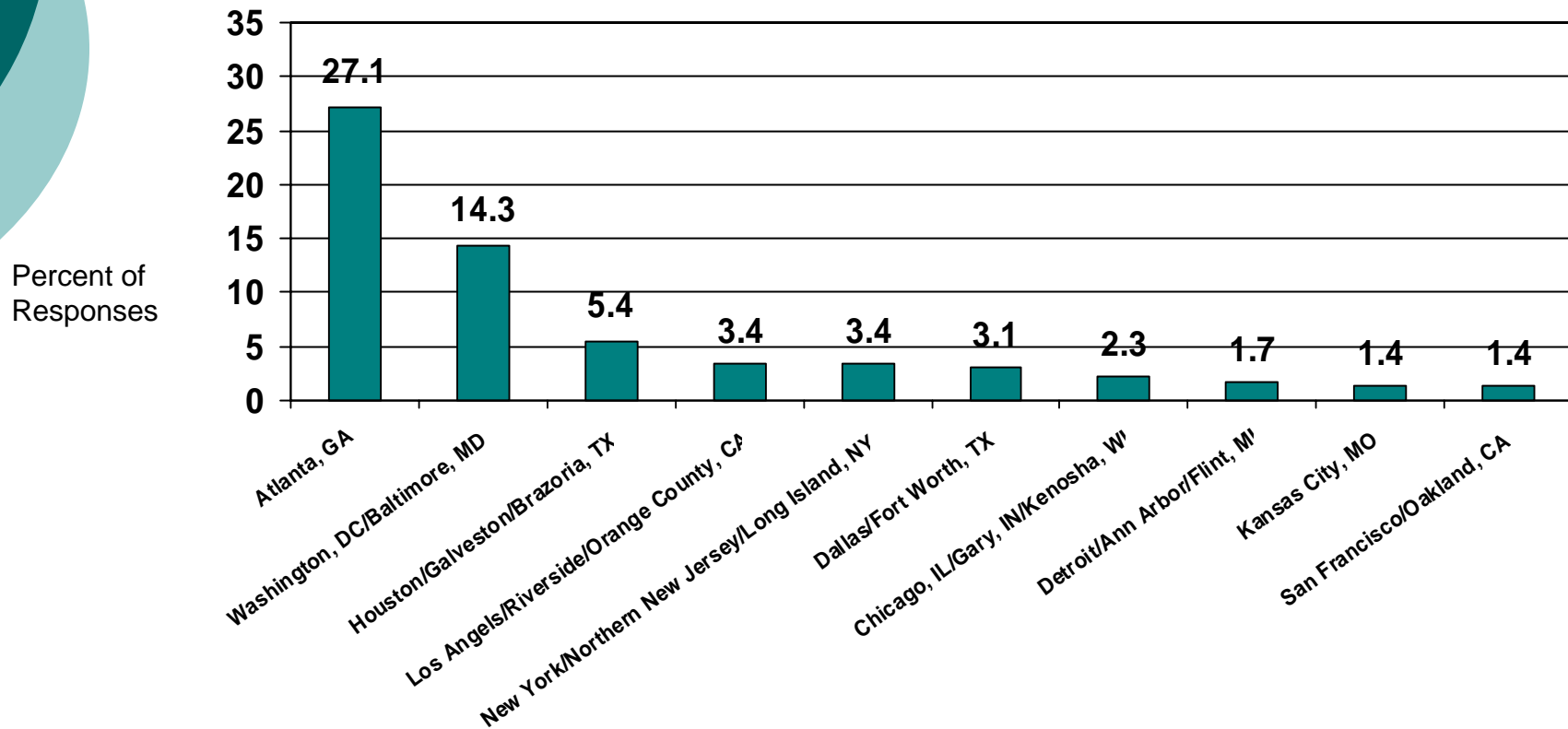
<u>Category</u>	<u>National %</u>	<u>Ga. %</u>	<u>Avg. Growth</u>
Gazelles	18%	29%	+ 40.1%
Growth	29%	30%	+ 9.3%
No-Growth	54%	41%	-14.4%

In What Region of the Country are You Most Likely to Find Gazelles?

Regional Distribution of Survey Respondents by Growth Classification

	Regions							
	South		Northeast		Mid West		West	
	Number	Row %	Number	Row %	Number	Row %	Number	Row %
Gazelles	125	60.4	19	9.2	42	20.3	21	10.1
Growth Oriented Businesses	173	54.6	41	12.9	62	19.6	41	12.9
No Growth Businesses	293	48.3	72	11.9	141	23.2	101	16.6
Total	591	52.3	132	11.7	245	21.7	163	14.4

Where Would Black-owned Businesses Prefer to Locate or Relocate?



What Are the Fastest Growing Industries for Black Businesses?

Annual Employment Growth by Industry Distribution of Respondents

	Percent Growth of Employment Growth Class	
	Gazelles Mean %	Growth Oriented Businesses Mean %
General Construction Contractors	34.5	10
Heavy Construction	73.9	5.2
Special Trades	31.9	8.5
Manufacturing	36.5	8.1
Transportation and Communications	40.9	8.8
Wholesale	38.2	9.2
Retail	33.2	8
Finance, Insurance, Real Estate	30.8	7.8
Personal and Other Business Svcs	47.8	9.8
Building Maintenance	37.7	9.3
Computer and Data Processing	48.9	10.9
Engineering, Architectural, Consulting	41.3	9.2
Total	40.9	9.1

In What Industries are Gazelles Most Likely to Operate? (All Industries!)

Industry Distribution of Survey Respondents by Growth Class

	Growth Class							
	Gazelles		Growth Oriented Businesses		No Growth Businesses		Total	
	Number	Column %	Number	Column %	Number	Column %	Number	Column %
General Construction Contractors	16	7.7%	6	1.9%	27	4.4%	49	4.3%
Heavy Construction	2	1.0%	4	1.3%	20	3.3%	26	2.3%
Special Trades	18	8.7%	29	9.1%	55	9.1%	102	9.0%
Manufacturing	15	7.2%	28	8.8%	58	9.6%	101	8.9%
Transportation and Communications	12	5.8%	26	8.2%	41	6.8%	79	7.0%
Wholesale	11	5.3%	27	8.5%	31	5.1%	69	6.1%
Retail	5	2.4%	26	8.2%	32	5.3%	63	5.6%
Finance, Insurance, Real Estate	4	1.9%	18	5.7%	28	4.6%	50	4.4%
Personal and Other Business Svcs	33	15.9%	48	15.1%	115	18.9%	196	17.3%
Building Maintenance	17	8.2%	10	3.2%	56	9.2%	83	7.3%
Computer and Data Processing	22	10.6%	35	11.0%	48	7.9%	105	9.3%
Engineering, Architectural, Consulting	52	25.1%	60	18.9%	96	15.8%	208	18.4%
Total	207	100.0%	317	100.0%	607	100.0%	1131	100.0%



Searching for the Secrets of Gazelles: Business and Owner Characteristics Examined

No. and Categories of Variables

- 8 Traits and Self-Perceptions of Owners
- 10 Motives for Entering Business
- 6 Attributes of Owners
- 9 Mgt. & Businesses Characteristics
- 7 Growth Strategies
- 4 Competitive Strategies
- 4 Marketing Strategies



Factors Most Highly Associated with Likelihood of Being a Gazelle: (after controlling for other factors)

1. If the percent of total revenue derived from government contracting increased over last 5 yrs.
2. If the company marketed regionally, nationally or internationally.
3. If the owner went into business voluntarily and not as a result of a job loss.
4. If the company did not engage in price competition.

Note: 39 variables were not statistically significant!!



Differences in Survey Responses

(* = difference is significant after controlling for other factors)

Question	Gazelles	No-Growth
High Risk Taker	22%	29%
Confidence Index	.56	.49
Hrs Worked/wk	56	54
Business Legacy in Family	46%	39%
Believes Ability is Innate	27%	18%
Business Motive is Wealth	73%	76%
Loss Previous Job	13%*	39%



Question	Gazelles	No-Growth
Motive is to Control Destiny	80%	87%
% with Graduate Studies	38%	31%
% with 15yrs Related exp.	60%	50%
Age of Business	12yrs	12yrs
R & D Spending Significant in Growth	29%	21%
Marketing Exp Significant in Growth	35%	46%
Tech Exp Significant	35%	40%



Question	Gazelles	No-Growth
Attended HBCU	40%	29%
Price Compete	13%*	26%
Improve Quality	25%	30%
Increase Govt. Marketing	59%*	35%
National/Intl Mkt.	25%*	18%
Rev. from Black customer/clients	23%	27%
MBE Programs are Important	43%	38%



Conclusions

- Gazelles are extremely important because of the large numbers of jobs they create.
- To understand how companies achieve Gazelle status, we must examine strategy and value innovation; not just business and owner attributes.
- Access to government contracting opportunities have been crucial for high growth companies. But greater opportunities are now needed in the private sector.
- Over the last decade, we have developed an incorrect bias-High growth means high tech. This is not the case.
- The CEOs of high growth firms are successful because they take measured and moderate risks, not high risks.
- High growth firms migrate towards locations where business opportunities are the greatest, Atlanta should put more resources into capitalizing on this tendency.