North Carolina’s Veteran-Owned Firms:
Assessing Current Research and Examples for Evaluating CDFI Impacts

RESEARCH BRIEF

Jamie Randall McCall
Vice President, Policy & Research

Carolina Small Business Development Fund
Key Findings on Veteran Lending

**Insufficient Research Exists on Veteran Small Businesses**

1. Sparse research exists on the types of challenges faced by veteran small firm owners. Data on barriers to capital access for this subpopulation is even more limited.

2. There has been little assessment of community programs and public policies which target veterans. Effectiveness is difficult to measure without systemic evaluation.

3. A lack of research and program evaluation severely inhibits empirical assessments of how community organizations can meet the needs of veteran entrepreneurs.

**NC’s Veteran-Owned Firms Mostly Small in Size, but Big in Impact**

1. North Carolina’s veteran-owned firms are predominately smaller in size. Over 4 in 5 veteran firms employ less than 19 people.

2. Compared to non-veteran firms, small veteran firms in the state account for a disproportionately large share of employment and payroll across veteran firms of all sizes.

3. Data which assess capital access across veteran firm size is limited at the state level. Though more research is needed, data suggest veteran startups may face unique challenges.

**Benchmarking and Portfolio Data Analysis is Key**

1. Existing data provides a few benchmarks that economic development researchers should consider when assessing impact. Suggested measures include veteran small firm share, veteran-owned start-up firm share, and veteran population share.

2. Assessing how veteran borrowers are different from non-veteran borrowers can yield important insights. For example, CSBDF’s veteran borrowers are more likely to be startups than non-veteran borrowers.

3. Descriptive statistics of veteran data is useful, but only a starting point. Of note, CSBDSF’s data show that average loan amounts to veteran borrowers were higher than non-veteran borrowers. But further analysis revealed no statistically significant differences between these two groups.
Why Veteran Lending is Important

For decades, the bulk of existing research has demonstrated that entrepreneurship and small business growth is the foundation of economic development. Scholars have demonstrated that new and expanding small businesses are the primary fuel for private sector job creation. Concurrently, evidence also shows entrepreneurs and firm owners often lack the resources to be successful. A persistent theme in economic development research is how small business owners lack access to affordable capital. But our research suggests there is a relative lack of research on veteran small businesses in this area. We find the dearth of data on this topic to be concerning because existing data suggest that veteran entrepreneurs may face obstacles to financing which are similar to those encountered by other underserved groups.

Additionally, research on the effectiveness of programs which support veteran firms is virtually non-existent. This is an important policy area and it should be a priority item for economic development researchers. If veteran capital access programs perform like programs targeted to non-veterans, they may be ineffective. In general, the data suggest existing policy solutions to small business capital access are inadequate at best, and at worst current some policy designs may actually be suppressing job growth. More research is needed to ensure the veteran entrepreneurs receive adequate support.

The Veteran-Owned Business Landscape

Most of North Carolina’s veteran-owned firms with paid employees are smaller in size. Over 82% (10,954) of veteran firms employ 19 or less people, compared to 79% of nonveteran firms. But despite being smaller in size, veteran small businesses employ 50,187, which accounts for almost 39% of all veteran firm employment. Nonveteran firms of the same size only account for 33% of total nonveteran business employment. Similarly, small veteran employers contributed $1.8B in payroll alone to the state’s economy in 2015. Small veteran-owned firms make up 38% of all payroll generated by all veteran firms, much higher than the 31% share generated by nonveteran firms of the same size. These data points lend credence to the notion that fostering veteran small business growth may create greater economic impacts when compared to investments in non-veteran firms.

National level data also give some insight into the unique circumstances of veteran-owned enterprises. For example, veteran firms are less likely to report utilizing personal capital sources to start or acquire their business. The data echo findings found by other research, which suggests veteran entrepreneurs often face unique challenges (e.g. low personal credit scores) that can make it difficult for them to finance their entrepreneurial dreams.
Benchmarks for Veteran Lending Activity

As a provider of capital and small business services to North Carolina’s veteran community, CSBDF has made a commitment to transparently track lending activities to the state’s veteran population. The below benchmarks highlight our impact:

I. Small Firms Owned by Veterans

Overall, about 1 in 10 North Carolina’s small firms are owned by veterans. Since 2010, CSBDF has made 118 loans to veteran-owned firms, making veteran borrowers about 19% of our total loan portfolio. CSBDF’s lending activity is about double the share of veteran small business ownership in the state.

II. Veteran-Owned Start-Up Firms

Across all sizes of North Carolina’s veteran-owned business community, 931 (7%) are startups and 12,406 (93%) are established firms. Startup firms are important component of fostering North Carolina’s entrepreneurial environment. Over half of CSBDF’s loans to veteran-owned firms provide capital to startup small businesses.

III. Veterans in the Adult Civilian Population

North Carolina is home to about 683,221 veterans, which is 9% of the state’s adult civilian population. The state ranks 8th in the nation for veteran residents. Although this benchmark is not without limitations (because it counts all veterans) – it is a good baseline metric for assessing reach into the market.
Comparing CSBDF’s Veteran and Non-Veteran Borrowers

Differences in Firm-Level Characteristics

Comparing the demographics of veteran borrowers to non-veteran borrowers offers a few insights into the profile of a typical veteran-owned business receiving CSBDF capital. Compared to non-veteran borrowers, loans made to veteran businesses are less likely to be owned by women\textsuperscript{xiv} and more likely to be startups.\textsuperscript{xv} Although the percentage of loans to minorities is lower for veterans (52%) compared to non-veterans (60%), this difference is not statistically significant.\textsuperscript{xvi} Similarly, although the data show 22% of loans to veterans go to low-income individuals versus 30% for non-veteran loans, there is no statistically significant association between these characteristics.\textsuperscript{xvii} The data illustrate that while descriptive analysis is a starting point, it is important to determine whether differences are statistically meaningful.

![Graph showing differences in firm-level characteristics]

Outcome Comparisons for Jobs Created or Saved

On average, veteran businesses report receiving loans from CSDBF helped them create or retain about 4.1 jobs. This is lower than the average amount of 5.3 jobs created or retained by non-veteran borrowers. Part of this discrepancy may be due to the fact that CSBDF’s veteran businesses tend to be startups. Reported employment levels before receiving CSBDF capital is also lower for veteran businesses compared to non-veteran businesses. On average, full time employment before receiving a loan is 3.7 for veteran borrowers and 4.0 for non-veteran borrowers. However, while veteran borrowers tend to employ fewer people on average and tend to create/retain fewer jobs compared to non-veteran borrowers, the differences are not statistically significant.\textsuperscript{xviii} In other words, although there appear to be differences between veterans and non-veterans on jobs, there is insufficient evidence that the observed variation is meaningful.
For More Information

The full version of this research brief can be accessed via the Carolina Small Business Development Fund website at carolinasmallbusiness.org. For questions about this report, please contact Jamie McCall at jmccall@carolinasmallbusiness.org.

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7 Many existing policy solutions rely on government institutions to directly manage programs for small business capital. However, research shows this can lead to negative economic outcomes compared to partnering with community organizations. See McFarland, C., & McConnell, K. (2012). Small business growth during a recession: Local policy implications. *Economic Development Quarterly*, 27(2): 102-113.

8 All cited differences between veteran and non-veteran firms in national level data were tested for statistical significance. All figures were found to be statistically significant at the 95% confidence level. Differences were determined using the Census statistical testing tool. Although this tool was designed to be used with American Community Survey datasets, the data analysis methods are applicable to information from the Annual Survey of Entrepreneurs.

9 Veteran-firms are less likely than non-veteran firms to report using home equity (5.9% vs 7.2%) and personal credit cards (9.8% vs 10.5%) to start or acquire their business. Interestingly, there are no statistically significant differences between veteran firms and non-veteran firms (65.7% vs 66.8%) when it comes to using personal/family savings to start a business. At first glance, this may make it seem like veteran small businesses are in a better position than non-veteran firms because they are less likely to use such “boot strap capital.” However, qualitative data from other studies suggest this phenomena is simply because veterans are less likely to be able to tap into these personal capital sources.


11 CSBDF defines veteran-owned as firms with 51% or more ownership by veterans. Data on veteran status is collected from borrowers at the time of loan application.

12 Start-up is defined as a firm which has been in operation for less than 2 years. Includes business of all sizes, start-up numbers for small veteran-owned firms at the state level are not available.

13 Number of veterans as a percentage of the civilian population aged 18 years or older, American Community Survey, 2016 5-Year averages.

14 A chi-square test between veteran status and women-owned business status is significant at $p = 0.001$, phi = 0.130.

15 A chi-square test between veteran status and startup business status is significant at $p = 0.001$, phi = 0.132.

16 A chi-square test between veteran status and minority-owned business status was not significant at $p = 0.118$.

17 A chi-square test between veteran status and low-income borrower status was not significant at $p = 0.493$.

18 A difference of means between veteran and non-veteran borrowers on both current jobs ($p = 0.264$, equality of variances $p = 0.876$) and created/retained jobs ($p = 0.216$, equality of variances $p = 0.269$) was not significant.