

Redefining Risk: Racial Disparities in Entrepreneurship and Financial Wellbeing



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October 2019

IASP Institute on Assets and Social Policy
The Heller School FOR SOCIAL POLICY AND MANAGEMENT • BRANDEIS UNIVERSITY

THE
SAMUEL DUBOIS COOK
CENTER ON SOCIAL EQUITY
AT DUKE UNIVERSITY

Redefining Risk: Racial Disparities in Entrepreneurship and Financial Wellbeing

By

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Capital Matters: Race, Gender, and Entrepreneurship

October 23, 2019

The Samuel Dubois Cook Center on Social Equity

Duke University

We thank the J.P Morgan Chase Foundation for their generous support that makes this work possible.

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"It's very difficult to find somebody that respects their employees. Like, I don't let nobody scream to me, no. I respect...the people [who] respect myself."

"I know it's farfetched, but just being equal...then we would have a lot of the same resources, we wouldn't be red lined for everything, our rent wouldn't be higher, our business insurance wouldn't be higher."

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Legacy and Landscape for Entrepreneurs of Color

The glories, riches, and mobility pathways of entrepreneurship are highly touted in the American experience. The dream of autonomy, freedom, innovation, and economic security is powerful. It is, however, a risky proposition as only about half of new businesses survive five years, with economic ramifications for families, communities, and across generations. Many people of color and immigrants embrace entrepreneurship as a way to get ahead, given our nation's segregated and discriminatory labor market. In fact, people of color start businesses at a higher rate than whites. For the large majority of businesses, however, the promise is typically bolder than results. Much of what is known about the challenges of business ownership involves the front-end of getting started.

It's important to start by setting the scene. There are over two and a half million Black owned businesses in the United States, a rate that increased by over one-third between 2007 and 2012. These businesses are primarily (more than 95 percent) sole ownerships with no paid employees. These businesses are largely concentrated in social assistance, health care, and

repair, maintenance, personal and laundry services. Professional, scientific, and technical services constitute about eight percent of Black businesses.¹

In conjunction with Professor Darity and his team at the Cook Center, Duke University, our work moves the understanding past those basic facts. Our teams worked together to iron out common procedures on data, analytic, and content issues. Professor Darity's team focused on crucial issues of how racial disparities effect entry into business ownership by size, initial investment, revenue generation, how the business was acquired, and wealth. In contrast, the IASP team explored three aligned questions, which are the subject of this report:

1. What does the life cycle of Black businesses look like, and how does this compare with businesses started by whites?
2. What is known about wealth accumulation and destruction pertaining to new businesses?
3. How does the experience of entrepreneurs of color fit into a widening racial wealth gap?

Any understanding of the history and trajectory of Black entrepreneurship must be set in the context of racial oppression and discrimination. The current concentration, arguably, continues to reflect a legacy of severe capital constraints and lack of access to so-called mainstream markets. The notion of economic detour is an enduring consideration—that many Black businesses form both to navigate a discriminatory employment terrain and to provide services

¹ U.S. Census 2012 Survey of Business Owners (SBO)

primarily to the Black community.²

Entrepreneurship is often seen as a key driver of economic mobility, wealth accumulation, and job creation. Starting a successful business can fundamentally change an entrepreneur's financial situation, helping them to grow assets and wealth throughout the life course. Yet, evidence suggests that Black business owners may not be realizing the same benefits of entrepreneurship as their white counterparts. Although Black individuals and immigrants are almost twice as likely to start a business as whites and native-born Americans, (Kollinger & Minniti, 2006; Fairlie, 2012), people of color are less likely to remain self-employed than whites (Ahn, 2011).

This study aims to explore differences in the career paths of entrepreneurs of color and identify the implications of these divisions on the U.S.'s racial wealth gap.

The study uses a mixed methods approach. The quantitative portion analyzes data from the 1999 to 2015 waves of the Panel Survey of Income Dynamics (PSID) and compares Black and white entrepreneurs. Separate analyses were run for those who started businesses in 2001 and 2005 to account for macroeconomic trends. Regression models were used to identify factors associated with continued ownership. Unfortunately, the survey data were not always sufficient to provide information on Black entrepreneurs for all the analyses we intended to conduct. For example, we could investigate the relationship between business ownership and wealth

² For a concise articulation and literature review of this perspective, see Robert Mark Silverman. (1999). Black business, group resources, and the economic detour: Contemporary Black manufacturers in Chicago's ethnic beauty aids industry. *Journal of Black Studies* 30(2): 232-258.

accumulation for all businesses, but there was insufficient information on Black entrepreneurs to run a separate white-Black analysis.

To partially fill this gap, we collected qualitative data from a broader range of Black and Latinx entrepreneurs of color. These qualitative data come from four focus groups with 24 Black and/or Latinx entrepreneurs, who were current or previous business owners. Participants were asked about macroeconomic, sector-specific, and policy-related factors that affected their ability to own, grow, and sustain a business. Questions also focused on the effects of racial discrimination and bias, knowledge pools, and financial capital on business success.

As noted previously, Black individuals and immigrants are almost twice as likely to start a business as whites and native-born Americans (Kollinger & Minniti, 2006; Fairlie, 2012). Yet, people of color are less likely to remain self-employed over the life course than whites (Ahn, 2011). The self-employment rate³ for whites, including the unincorporated self-employed as well as those who work for themselves in an incorporated business, was 11.6 percent in 2009, compared to 6.0 for blacks and 8.0 percent for Latinos (Hipple, 2010). This suggests that disparities in business ownership are not due to business initiations but due to differences in career paths, rates of longevity, and business outcomes.

Self-employment rates are useful for understanding trends over time and across populations, but they mask a more complex story of the career paths of entrepreneurs. Critical moments and transitions for entrepreneurs include:

³ Self-employment rates are calculated by the Bureau of Labor Statistics as the number of self-employed workers divided by total employment.

- Securing employment and/or gaining experience in their field of choice - working for and learning from others in established businesses but where labor contributes to the assets of others
- Securing capital to invest in and start a business
- Moving from wage work to entrepreneurship – venturing into self-employment and gaining ownership of labor and capital
- Employing others – having one or more employees other than self
- Growing production and expanding employment base – employing more than 15 people and contributing to the local economy by supplying jobs
- Expanding to a second location, building a brand, growing a diverse consumer base, and/or opening multiple types of businesses, often linked in the supply chain to the original company
- Positive exit from self-employment - selling the company, concept, or brand, retiring, and exiting business ownership
- Negative exit from self-employment – reaching bankruptcy, closing a business, selling a failing business

This prototypical career path of an entrepreneur illustrates the simultaneous growth of human capital, social capital, and financial capital. The actual career paths of entrepreneurs are less sequential or clearly defined. Approximately 50 percent of all businesses fail within 5 years, and negative exit is more likely to befall entrepreneurs of color (Small Business Administration, 2012). At every stage along this career path, entrepreneurs of color face structural barriers that whites may not face, including discrimination in access to credit, interest rates, and renewals (Asiedu, Freeman & Nti-Addae, 2012; Blanchard, Zhao, & Yinger, 2008). They also draw on assets and strengths that are not commonly accounted for in business development literature or by mainstream banking and credit institutions. For example, many entrepreneurs of color utilize forms of capital and assets such as lending circles and ethnic networks to build financial, human, and social capital and to grow their businesses (Cederberg, 2012; Eckstein & Nguyen, 2011). Black, Latino, Asian, and Native American/Pacific Islander entrepreneurs in the

United States draw on assets and structures of wealth that potentially could be better understood, scaled up, and supported by mainstream financial and business institutions.

This raises the question of how the career paths of entrepreneurs of color might impact the pervasive racial wealth gap that exists in the U.S. (Shapiro, Meschede, & Osoro 2013; Oliver & Shapiro 2004). On one hand, starting a successful business could help Black entrepreneurs build assets and economic empowerment that potentially reduce the racial wealth gap. On the other hand, racial disparities in the success rates of Black and white owned business could simultaneously be cause and consequence to the gap growing even wider.

The goal of this study is to better understand the wealth and success pathways of entrepreneurs of color in the U.S. and to begin to explore the structures that enable entrepreneurs of color to build, protect, and grow assets over the life course through effective business ownership. Our analysis focused on racial disparities in business tenure and the wealth effects of exiting self-employment, as well as predictors of business tenure in two periods: in the aftermath of the 2000 dot-com crash and during the 2005 housing boom.

Data

This report draws on two data sources:

1. Data from the 1999 to 2015 waves of the Panel Survey of Income Dynamics (PSID). The PSID is a highly regarded longitudinal survey, administered to a panel of Americans ever two years by researchers at the University of Michigan. (Please refer the methodological Appendix for more technical details for the PSID analyses).

2. The IASP team conducted four focus groups with entrepreneurs of color in Boston, Oakland, and San Francisco, in the spring of 2018. In total, 24 Black and Latinx current and former business owners participated in focus groups. The research team also conducted interviews with four community advocates and service providers. Participants were asked about macroeconomic, sector-specific, and policy-related factors that affected their ability to own, grow, and sustain a business. Questions also focused on the effects of racial discrimination and bias, knowledge pools, and financial capital on business success.

The Story in Numbers

The climate for entrepreneurship is tied to the overall economic situation and stratification economics in the U.S. Starting a new business right before an economic downturn might be very different from starting one in the midst of an economic expansion. To better understand these issues, we analyzed two different sets of entrepreneurs. First, we look at those who started a new business in 2001 – right on the heels of the dot-com crash, and at the beginning of the dramatic economic expansion during the mid-2000s. Then we look at those who started a new business in 2005, when the U.S. economy was in the midst of a housing boom which would collapse into a financial crisis just a couple years later.

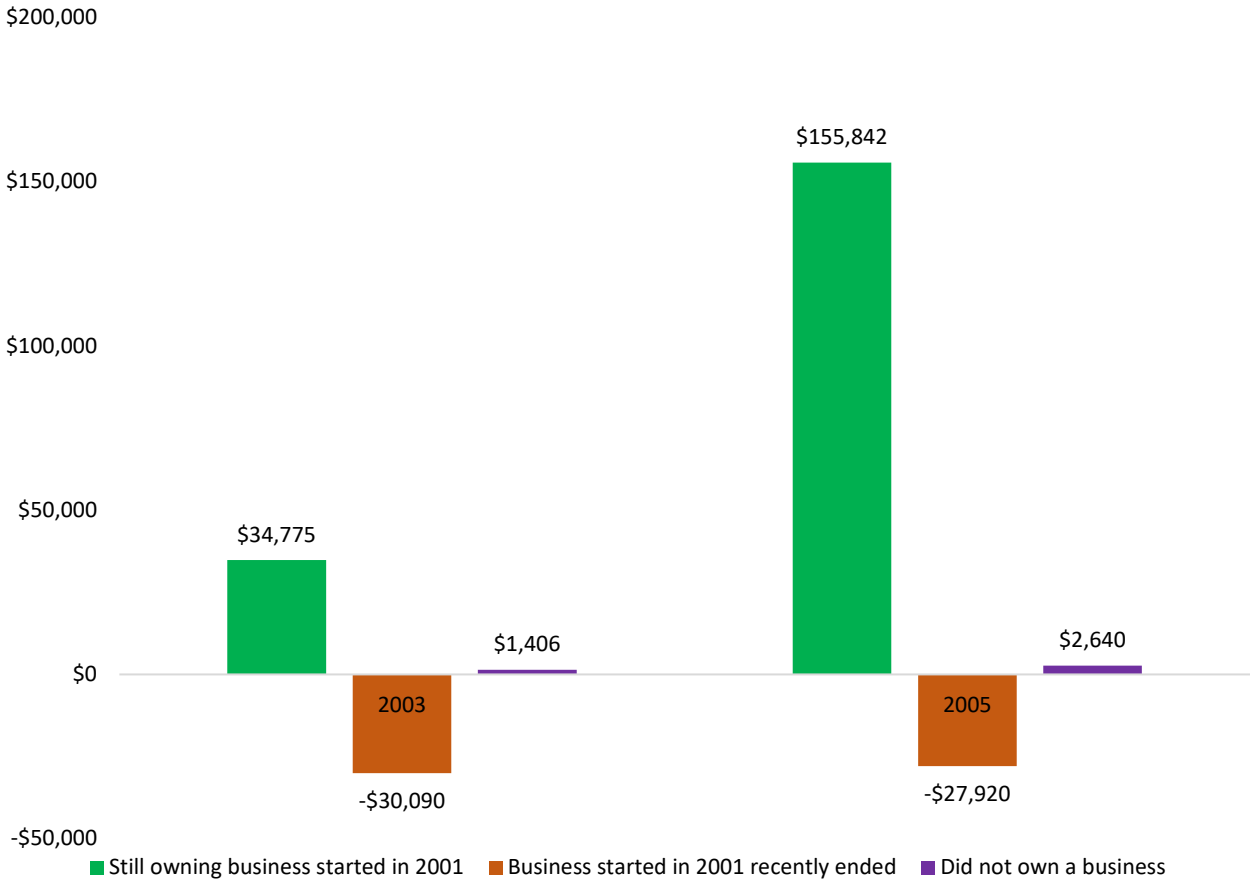
Owning a Successful Business Can Help Grow Wealth, but Owning an Unsuccessful Business Can Erode Wealth

Starting a business is associated with increased household wealth, but only as long as the business continues to succeed. If, in contrast, the business ends, then the entrepreneur is likely to end up with less wealth than he or she started with. This relationship is shown in Figure 1.

The first three bars show the change in median wealth between 2001 and 2003 for three groups: entrepreneurs who started a business in 2001 and were still owning in 2003, entrepreneurs who started a business in 2001 but were no longer owning in 2003, and individuals who did not own a business in either year. The second three bars look at median wealth change between 2001 and 2005 for three comparable groups: 2001 entrepreneurs who were still owning in 2005, 2001 entrepreneurs who stopped owning between 2003 and 2005, and a comparison group of those who didn't own a business in any year.

Both comparisons show that those who didn't own a business saw relatively little change in their net-wealth between 2001 and 2005. In contrast, starting a business has the potential to dramatically increase or decrease wealth, depending on whether or not the business is successful. The median wealth of those entrepreneurs who were still owning their business in 2005 was over \$34,000 higher than it was in 2001, but among those who were no longer owning median wealth had decreased by over \$30,000. The change between 2001 and 2005 are even more dramatic, with the median wealth for successful entrepreneurs increasing by over to \$100,000, while the median wealth of unsuccessful entrepreneurs again decreasing by almost \$30,000.

Figure 1: Change in median wealth for those who owned in 2001: 4 and 8 years later



Of course, the wealth impact of entrepreneurship – for better or for worse – is also highly dependent on broader macro-economic conditions. To illustrate this, Figure 2 shows a comparable analysis for entrepreneurs who started a business in 2005. Presumably due to the booming economy, successful 2005 entrepreneurs saw a much larger increase in median wealth in just two years, compared to their 2001 counterparts, although some (but not all) of these gains had evaporated by 2009 in the wake of the financial crisis. The decline in wealth for unsuccessful entrepreneurs, however, is even more dramatic than in 2001. The media wealth of

2005 entrepreneurs who were no longer owning a business had declined by over \$50,000 in the years after they first started their business.

Figure 2: Change in median wealth for those who owned in 2005: 4 and 8 years later



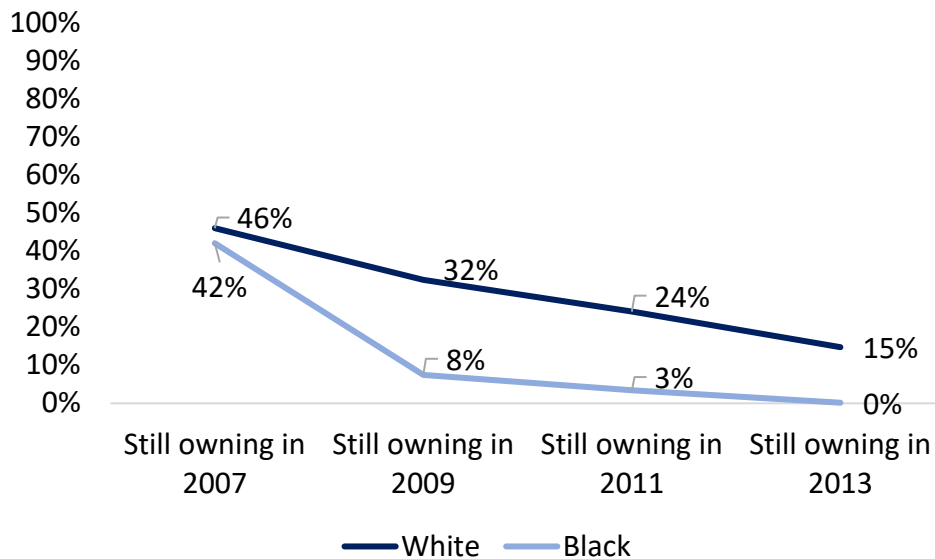
Business Life Cycle and Survivability in Black and White

The analysis above shows that the continued health of an entrepreneur’s business is vital to wealth creation. When a business ends, the wealth gains that business produced can be washed away, and even leave the entrepreneur worse off than they started. It is therefore

critically important to understand how often businesses end, and the extent to which patterns of ending differ between Black and white-owned businesses.

These results echo earlier work finding that most new businesses end within a decade. More critically, we find that, especially during periods of economic decline, Black-owned businesses tend to end earlier than white owned ones. To illustrate this Figure 3 shows the proportion of white and Black entrepreneurs who owned a business in 2005 who were still owning in 2007, 2009, 2011 and 2013, that is, 2, 4, 6 and 8 years later. Although we see comparable rates of continued ownership for Blacks and whites in 2007, after two years, there is a dramatic divergence after the start of the great recession in 2009. Although 32% of whites who started a business in 2005 were still owning in 2009 only 8% of Blacks were. More alarming is that the proportion of Black entrepreneurs who continue to own their business declines to practically zero by 2013. In contrast, a comparable analysis of entrepreneurs who started owning in 2001 finds no statistically significant differences in the failure rates of white and Black businesses. Just examining survivability rates, and not success, these results suggest that while Black and white entrepreneurs may be able to initially play on a more even playing field during periods of economic expansion, recessions and economic downturns can have a disproportionate negative effect on Black business owners.

Figure 3: Percentage of 2005 business owners who still owned a business in 2007, 2009, 2011, and 2013, by race



What Drives Business Success in the Short and Medium Term?

What factors might lead Black-owned businesses to end earlier than white-owned ones? Is this disparity just a function of Black entrepreneurs having lower levels of wealth in the first place? Or can it be explained by differences in education, income or work status? To investigate these questions, we ran a series of statistical models to explore which factors are correlated with business survivability, isolating the impact of race, income, wealth, education and other factors from each other. Because different factors might predict short, medium, and long-term business success, we ran separate models looking at the factors that correlate with still owning a business two, four, and six years after first starting it, and to explore the impact of macroeconomic factors were looked separately at those who started a business in 2001 and 2005. Figure 4 summarizes the results of these models. Plus and minus signs denote statistically

significant positive and negative relationships between each factor and continuing to own a business 2, 4, and six years later, holding all other factors in the model constant.

Figure 4: Factors predicting continued ownership for entrepreneurs who owned in 2001 or 2005

	Still owning after 2 years		Still owning after 4 years		Still owning after 6 years	
	Started in 2001	Started in 2005	Started in 2001	Started in 2005	Started in 2001	Started in 2005
Blacks (vs whites)				-		-
Larger business at start	+		+		+	
Higher income at start	+					
More wealth at start	-		-		-	
More education at start		+	+	+	+	
Had to work another job	-	-	-			-

Note: Results from logistic regression models on continued ownership (+/- indicate direction of coefficients significant at $p < .1$). Full model results available in Methodological Appendix.

Perhaps surprisingly, individual economic characteristics like initial net-wealth and income do not seem to have a consistent relationship with business success. In contrast, these results clearly show that, no matter when the business is started, that those who had to work another job in addition to running their business were significantly less likely to still be owning a business 2,4, or 6 years later.

Entrepreneurs who started larger businesses in 2001 were more likely to see their business continue to succeed, but business size did not seem to have a substantial impact on those who

started businesses in 2005. These results also show that entrepreneurs with higher levels of education are more likely to still be owning their business.

Yet, even after accounting for all these other factors, Blacks entrepreneurs who started businesses in 2005 were still less likely to still be owning their businesses four or six years on, compared to their white counterparts. The patterns of this relationship mirror those discussed above and shown in Figure 3. Among those who started a business in 2001 there is little difference between Black and white entrepreneurs, among those who started a business in 2005 Blacks are to be less likely to still be owning a business 4 or more years later.

Why are Black-owned Businesses Still Likely to End Sooner?

We have seen that racial disparities in length of business ownership are not fully explained by differences in education, income, net-wealth or having to work another job. What other factors could be making it more difficult for Black entrepreneurs to keep a new business afloat?

Although it is difficult to answer this question using the data available in the PSID, there are a number of other possible explanations for these disparities.

One of the most serious barriers to the success of minority owned business may be lack of access to start-up capital and financing (Fairlie & Robb 2008). It is important to note that lack of access to capital is, in part, a legacy of the past when African Americans created wealth as slaves, as laborers, and consumers, but did not share or own that wealth. Hence, Black families have had fewer opportunities to pass businesses or wealth down to their children. Past work has found substantial racial disparities in access to small business loans, largely driving by implicit and explicit discrimination by lenders (Bates & Robb, 2015, 2016; Blanchard et al., 2008;

Blanchflower, Levine, & Zimmerman, 2003). A series of “mystery shopper” experiments have found that Black entrepreneurs are more likely to be denied financing, or offered worse terms, compared to white applicants with identical financial characteristics (Bone, Christensen, & Williams, 2014; Bone et al., 2017; Lubin, 2011).

At the same time, there are other factors that may be contributing to the difficulties faced by Black entrepreneurs. One possibility is that Black entrepreneurs may be more likely to start a business in particular sectors which are inherently more volatile or where the overall likelihood of success is lower. In particular, Black-owned businesses may be more likely to be service-sector firms catering specifically to the local Black community (e.g. hair salons / barbershops). These sorts of businesses may have a harder time attracting business from outside the local Black community, limiting their growth potential, and making them more economically precarious. This likely is a legacy of the economic detour outlined at the beginning of this report.

Finally, the education control in our statistical model was fairly crude: years of total education. Yet, other work suggests that one of the strongest predictors of entrepreneurial success is not formal education but prior “hands on,” experience working in a family owned business (Fairlie & Robb 2008). Because Black entrepreneurs may be less likely to have parents or relatives who had entrepreneurial experience, they may be missing out on this valuable practical experience. More broadly, white entrepreneurs may have better access to informal education through social networks with other successful entrepreneurs. These challenges are also highlighted in the qualitative results discussed below.

Voices of Entrepreneurs

Focus group data highlight a range of barriers at different stages of business ownership that make it difficult for many entrepreneurs of color to achieve financial wellbeing, including barriers to accessing affordable credit and capital, racial bias, and inadequate resources to support the development of businesses throughout their life cycles. Data also reveal certain non-financial benefits of entrepreneurship and respondents' motivation to excel and contribute to their families and communities through business ownership.

Theme 1: Barriers to accessing affordable financial products

The lack of access to affordable financial products emerged as a major barrier to success. Respondents found it difficult to access start-up funding, as well as financing to weather economic shocks or expand their business after the start-up phase. These barriers, common to fledgling small businesses broadly, intersect with historical and contemporary racial bias and discrimination to create extra burdens for entrepreneurs of color.

First, respondents described traditional financial institutions as being out of sync with the needs of small business owners. A former travel agent, whose business was sunk by 9/11, stated succinctly, *"Banks give you money really when you don't need money."* For instance, it is common for lenders to require three years of receipts in order to qualify for a small business loan. This means that small business loans are only available to those who can generate the capital from other sources to successfully run a business for three years. Although this is a challenge that affects early phase entrepreneurs of all backgrounds, racial disparities in wealth mean that white entrepreneurs are more likely than their Black and Latino peers to have access

to family wealth or be connected to social contacts who can help with financing. One Latino respondent noted this, saying,

You have white business owners who have uncles and friends who can risk to lose that money. So, it's not that big of a risk. But we don't have enough people coming back to the community saying, 'You know what? I'm going to invest my dollars.'

The Black and Latinx entrepreneurs in our study, lacking formal and informal financing alternatives, often invested personal resources into their businesses, placing their family economic stability at risk. For instance, one former owner of a retail store saved up and took equity out of his home to fund the start-up of his business because he was denied a loan from a mainstream bank. He lost approximately \$50,000 in personal wealth when the business closed.

Second, another common issue is that business owners have difficulty securing loans to either get them through hard times or to grow their business after the start-up phase. This lack of access to capital turned what may have been temporary downturns into catastrophes for some of the small business owners in our sample. An advocate described this problem, stating, *"This whole [lending] eco system is not really supportive of growth and expansion. It can stimulate the startup piece because cost for startup in the service sector is small,"* but ongoing investment is needed to allow companies to grow and thrive.

Some respondents indicated that the financial technology sector is starting to address this problem, as e-commerce providers have begun offering loans, repaid by a percentage of sales.

A respondent described one such loan product, saying,

They're not looking [at what] your credit score is, they're looking at what your sales are

there and because of that, because I have pretty healthy sales...that made it a lot easier to be able to get it quickly, no questions asked.

The respondents who had used these services generally viewed them positively because they do not depend on credit scores or years in operation the way that traditional business loans do. However, respondents pointed out that such loans do not help to solve the problem of securing start-up funding, as they rely on a proven record of past sales. Additionally, because the financial technology sector is largely unregulated, there are limited protections against predatory and discriminatory practices.

Theme 2: Interpersonal, institutional, and systemic racial discrimination

Compounding the already difficult problem of securing small business funding, patterns of racial discrimination and bias affect small businesses owners' access to credit and capital in many ways. Respondents described being denied loans, receiving poor loan terms, and facing bias in the private investment market as well. For example, an early stage entrepreneur, a Black immigrant woman, struggled to secure a decent loan despite impeccable credit. She observed that based on her appearance, resource organizations wrongly assumed that she needed to build or improve her credit and offered her only costly loan options. She explained,

Even though I have good credit, even the interest rate for me, I don't understand why it's so high. I mean...if you have an 800-credit score, you should be able to get a loan, not at 10 or 12 percent.

She ended up financing her company by obtaining a loan through a peer-to-peer lending site, taking loans from family and friends, and devoting personal savings. This respondent expressed concern that her status as a Black woman and immigrant may be affecting the financial

products she is offered. Another respondent described systematic racial bias at financial institutions more plainly, asking, *“What about when they charge anybody with melanin in their skin a higher rate?”*

Respondents detected racial bias in investment circles as well. For instance, a Black entrepreneur with an early stage, successful web development business explained, *“There’s an incredible amount of discrimination within the venture capital process within this city...this is the system that has intrinsically not supported our community.”*

Historical and contemporary racist ideas lead many people to think that most business owners are white, which adds an additional hurdle that entrepreneurs of color must clear in order to build or sustain businesses. Respondents described facing this type of discriminatory belief from people in positions of power as well as customers. For instance, a Black man who owns a dessert company described being frequently mistaken for a waiter:

Whenever I do an event or individual catering, I always find it strange to me when I walk into a room and it’s like, I’m the only person [of color] there, and they look at me as if, as if I’m the help... It’s like their language and how they kind of, phrase it, I feel like they don’t understand, not every company out there is owned by a white person.

Other respondents described this same process occurring in financial institutions. One respondent explained, *“when we get into the corridor of capital, when we deal with banks, there is a perception... [of], ‘What are you doing here?’”*

These racist beliefs and spaces place an unfair burden on entrepreneurs of color to prove their place and value as business owners. Several respondents who work in consulting described

having to collect numerous certifications, credentials, and accolades, just to get in the door and have a chance to compete. A Black female respondent described it this way: *“I’m noticing I have to present all my credentials just to say, ‘Okay, I’m valid, I’m viable.’”* She went on to say, *“If I was white, it would be, ‘Oh, she’s doing this, she’s doing that, let’s bring her in.’ But because it’s me, a person of color and a woman, it’s like, ‘Oh you don’t have that going on.’”* Another Black female respondent echoed this, saying, *“I had to get all these certifications...and then when I got to contractor meetings, I see that I’m like the unicorn in the room...I feel like I have to work twice as hard.”* Another Black business owner and community advocate described getting ulcers from the stress of her work, saying, *“They ran me into the ground because I always had to prove that I deserved it [the contract].”*

In addition to interpersonal and institutional forms of racism, entrepreneurs astutely described the effects of systemic racism on their businesses. Many small business owners live and run their businesses in communities of color, where prices for rents, food, and materials are inflated. One participant suggested that this type of systemic bias could be quantified by looking at how much McDonald’s restaurants charge in majority-Black neighborhoods for condiments like ketchup or tomato slices, items that are offered for free in majority-white areas. He stated, *“We’re getting charged extra for exactly the same thing...Everyplace else they’re giving it away for free.”* These higher prices, combined with more expensive loans and drawing on personal savings, mean that entrepreneurs of color take on additional risk and deplete their wealth when starting a business compared to their white counterparts. One respondent, describing this problem, articulated a clear but “farfetched” solution:

I know it's farfetched, but just being equal. Because if we were equal, then we would have a lot of the same resources, we wouldn't be red lined for everything, our rent wouldn't be higher, our business insurance wouldn't be higher.

Theme 3: Mismatch in community resources

In addition to capital, entrepreneurs draw on a range of resources from personal networks and community institutions to build successful businesses. Respondents described a mismatch between what they seek as entrepreneurs of color at different stages of business and the actual availability and quality of resources.

Entrepreneurs seek different types of support to augment their existing skills, including training in various aspects of business management, as well as support to expand their business after the start-up phase to achieve greater impact and build wealth. Most demonstrated pride in their levels of expertise and skill within their niche product areas (photography, IT, culinary, art, retail, etc.), while relaying the myriad challenges they faced as they learned to run businesses. For instance, many respondents expressed a need for basic training on operations, budgeting, and administration. One business owner described his search for advising on budgeting and planning for the future:

I would like to find someone where they know how to sit down with you and say, "Okay, do a forecast. If you take out this much, ...if you sell this many units to get to this, to get to this stage in your business. And if you sell this many, you can get to this stage." That is what I'm trying to figure out, within myself. So, I don't want to take out another loan and not knowing if I can pay it back.

Many respondents also expressed a need for more mentorship programs and opportunities for “hands on” training. One business owner described being paired with a mentor through a foundation-funded program, noting:

It was just really helpful for me...Many times minorities don't always have access with that. Like I didn't have a wealth of entrepreneurs in my family or my neighborhood or whatever. So, to talk with another business person, that we met maybe once a month or something like that and I could share with him my concerns...

However, many respondents noted that mentors are difficult to find in the competitive environment of small business. For instance, a respondent explained, *“I've reached out to people, in the past, who do what I do, and they just feel threatened. Like, there's enough customers for everybody, but they can't see it that way.”* Many successful entrepreneurs in this sample, seeing the need for mentorship, have provided support and encouragement to others in their communities. For instance, a Latina business owner described working to inspire and support other Latina women entrepreneurs, describing her message as, *“Don't give away your talent...Put it to work, create your business. Like, spread the word. Get money out of it.”* She described mentoring at least ten women entrepreneurs in this way.

Existing community resources and government programs tend to support small businesses in the early start-up phase, assisting with steps such as developing a business plan, accessing capital, and/or marketing. However, not all respondents started up in a way that follows this formal business development process. Several respondents described a more gradual process in which they started their businesses as “side gigs,” sold their products through personal networks, and built businesses as their success grew. This process required less initial

investment and also allowed respondents to work full-time or part-time jobs as a way to pay the bills while growing their businesses. As these entrepreneurs became more successful, they described facing key transition moments when they were in need of guidance. Examples of these transitions include: turning their “side gig” into a full-time job, hiring staff, leasing space or purchasing equipment, and expanding their customer base beyond their own contacts and community. Many respondents expressed a desire for assistance with these transitions but stated that they are unaware of resources for that purpose.

Other respondents explained that resources do exist, but they fail to reach entrepreneurs of color for a variety of reasons. One Black business owner observed, *“There are a few organizations and/or nonprofit entities that are there to help, but they don’t always advertise well to us [people of color].”* A community advocate explained that in order to get the help they need, entrepreneurs *“need to visit three to four different places, getting services one to two hours at a time.”* He went on to note that the current service model tends to be an *“economic emergency room, but small business’ needs are not treatable in the ER. They are long-term needs over the economic life”* of the company. Addressing those longer-term needs can also be difficult due to the challenges of scheduling for busy entrepreneurs. Several service providers who struggled to attract enough entrepreneurs to sustain classes or trainings in communities of color attributed this difficulty to business owners’ busy and shifting schedules. Likewise, some entrepreneurs noted that it is difficult to participate in formal classes offered by community institutions due to limited time and scheduling.

In addition to this mismatch in service models, respondents pointed to a clear mismatch in the racial, ethnic, and linguistic backgrounds of staff and leaders at organizations offering small

business support. One Latino entrepreneur described growth in the Latinx population and the flourishing of Latinx-owned businesses, yet he lamented that service providers and policymakers in these neighborhoods remain predominantly white. For instance, the respondent noted that one staff member in a position intended to support small businesses in predominantly Latinx neighborhoods is “*very qualified,*” but, “*the problem is s/he doesn’t speak Spanish.*” The quality and relevance of resources available to small business owners vary based on the degree to which the provider organizations are run by trusted community leaders and/or authentically connected to communities of color.

Theme 4: The promise of entrepreneurship

Notwithstanding its risks and challenges, business ownership has the potential to build both personal and community wealth. Equally important, business ownership enables individuals to have power and ownership over their work. Several respondents stated that despite the considerable challenges inherent in developing, sustaining, and growing their business, it is still preferable to working for someone else. One entrepreneur explained her experience:

I do feel like being in my own business gives me more opportunities than when I was in corporate America. I’m glad I decided to leave from corporate America, because even with all the challenges of running your own business, you just feel like, I feel a little bit more in charge of my own destiny.

Another respondent described owning a business as a way to ensure that both her employees and she herself were treated with respect at work. Explaining that she treats her own employees as friends, one business owner went on to say, “*It’s very difficult to find somebody*

that respects their employees. Like, I don't let nobody scream to me, no. I respect the people that, the people [who] respect myself." These respondents' reflections about power and respect shed light on entrepreneurs' motivations to pursue entrepreneurship despite its additional risks.

Discussion

Overall, we find that owning a business has a strong, positive impact on net wealth as long as the business continues to operate. However, if the business ends, then the owner is likely to end up with less net wealth than he or she started with. Thus, it is owning a *successful* business that appears to positively impact wealth creation. Unfortunately, running a successful business is difficult especially during tough economic times, and we find that fewer than half of new business owners are still owning their business even two years later. However, Black-owned businesses tend to end sooner than white-owned businesses, suggesting that increased Black entrepreneurship may not reduce the racial wealth gap, unless we can find ways to help Black-owned businesses succeed at the same rate as white-owned ones. In the aftermath of the great recession, new businesses owned by entrepreneurs of color were more likely to close sooner, which suggests that entrepreneurs of color face additional risks during periods of economic uncertainty.

To better understand the impact of the larger economic environment, we explored the factors predicting business success among entrepreneurs who started businesses during two different eras: in the aftermath of the 2000 dot-com crash, and in 2005 during the housing boom. Comparing the dynamics of entrepreneurship at these two time points shows that the

macroeconomic conditions of the country have a strong impact on racial disparities in entrepreneurship. During the period of growth starting in 2001 there was little difference in the success rates of Black and white owned businesses. However, the economic downturn starting in 2008 appeared to hit Black entrepreneurs far harder than their white counterparts. These analyses also show that entrepreneurs who start with more education and those who don't have to work a second job are more likely to see their businesses succeed. But controlling for these and other factors doesn't fully explain the difference in business success between Blacks and whites.

Based on our focus groups with entrepreneurs, we identified a range of barriers at all different stages of business ownership that make it difficult for many entrepreneurs of color to establish thriving businesses and achieve financial wellbeing. Longstanding patterns of racial inequality at play in neighborhoods and small businesses across the country contribute to the racial wealth gap and make equity a "farfetched" notion, as one respondent described it. Despite these barriers, entrepreneurs of color in Boston, Oakland, and San Francisco, are forging pathways to autonomy and ownership in their work while providing valuable products and services in their communities.

Moving Forward

Investing in more effective supports will multiply these benefits for business owners, consumers, and communities. Strategic, responsive investments in communities of color could also lessen the added risk assumed by entrepreneurs of color, making the wealth-building

effects of business ownership more equitable. These findings support recommendations in several areas:

1. Increase the supply of affordable financial products.

- Lenders use alternative criteria to evaluate creditworthiness and push toward a new paradigm in lending that views people as assets.
- Lenders expand access to small dollar loans, credit-building loans, small business loans at all phases of the business life cycle.

2. Address racial bias and discrimination at the interpersonal, institutional, and systemic levels.

- Financial institutions take affirmative steps to invest directly into communities of color, not through intermediaries.
- Regulators, policymakers, and other stakeholders support and expand regulations to detect and prevent racial bias and discrimination in lending.

3. Tailor resources to the needs of entrepreneurs of color provided by community-based organizations.

- Philanthropies, financial institutions, and other funders invest in services provided by local, trusted, community-based organizations, like community development centers, community credit unions, and service providers rooted in communities of color. The types of services that are needed include: Culturally and linguistically tailored support around operations management, strategy, expanding customer base, accounting, marketing, and securing financing; mentorship; and networking opportunities.
- Service providers expand programs to move beyond the “economic emergency room” and provide services across the life course of the enterprise.
- To support the pipeline of talented new entrepreneurs of color, financial institutions host “success cohorts,” offering formal training, peer learning, and financing opportunities.

4. Robust Change

- Living Wages that support community businesses
- Federal Guaranteed Jobs
- Baby Bonds
- Reparations

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Appendix - Methodology

PSID Data

The analyses presented in this report use data from the Panel Survey of Income Dynamics (PSID). The PSID is a highly regarded longitudinal survey, administered to a panel of Americans every two years by researchers at the University of Michigan. This report uses data from the 1999 to 2015 waves of the PSID.

Defining Entrepreneurship

For this report we defined “entrepreneurship” or “owning” a business using the following question, asked of the “head” of the household: “Do you (or anyone in your family living there) own part or all of a farm or business?” This doesn’t include people who consider themselves “self-employed” but did not say that they owned a business. Our definition therefore also includes households where the respondent’s spouse, or someone else in their household, actually own the business.

To track patterns of entrepreneurship over time we look at how respondents’ answers to this question changed in successive consecutive waves of the PSID, e.g. from 2005 to 2007.

We focus in specifically on two groups: Firstly, 2001 new entrepreneurs: those respondents did not report owning a business in 1999, but did report owning a business in 2001. Secondly, 2005 new entrepreneurs: those who did not report owning a business in 2003 but did report owning one in 2005.

We look to see how many consecutive waves of the PSID each of these types of entrepreneurs continued to report owning a business. We consider the first wave where they report no longer owning a business as the date when that business ended. For example, if a 2001 new entrepreneur reported owning in 2003, 2005, and 2007 but did not say they were owning in 2009 we consider the business to have ended in 2009.

Methods of Analysis

Except when reporting changes to median wealth, all analyses were run using the PSID’s own individual level weights, to account for sample bias in the PSID panel. Analyses of 2001 new entrepreneurs were weighted using 2001 weights and analyses of 2005 new entrepreneurs were weighted using 2005 weights.

Measures of net-wealth in this report exclude home-equity, to avoid conflating wealth changes with the real estate boom and bust during the period being analyzed. All dollar figures have been adjusted to 2016 dollars using the Bureau of Labor Statistics inflation calculator.

Analyses of the factors predicting continued ownership were run as weighted binary logistic regression models, controlling for race, initial value of the business, initial net wealth (minus business assets), years of education, initial income and employment status. Full regression output for all models is presented below.

Regression output

Below is the output of regression models predicting the likelihood of still owning a business 2, 4, or 6 years later, for those who started a new business in 2001 and 2005. We first present models for those who started a business in 2001, and then for those who started a business in 2005.

New 2001 Entrepreneurs

These models were run on respondents who reported owning a business in 2001 but did **not** report owning a business in 1999. They are run using 2001 weights.

Still owning after 2 years (in 2003)

(running logit on estimation sample)

Survey: Logistic regression

Number of strata	=	1	Number of obs	=	433
Number of PSUs	=	433	Population size	=	5,143.999
			Design df	=	432
			F(7, 426)	=	1.97
			Prob > F	=	0.0579

newbizstillalive0103	Coef.	Linearized Std. Err.	t	P> t	[95% Conf. Interval]
black01	-.2948049	.570965	-0.52	0.606	-1.41702 .8274101
valuebizfarm01adj	3.03e-06	1.16e-06	2.61	0.009	7.50e-07 5.32e-06
nobiznoeqwealth01adj	-1.28e-06	4.69e-07	-2.74	0.006	-2.21e-06 -3.63e-07
edyears01	.0352927	.0780746	0.45	0.651	-.1181605 .188746
income01	9.26e-06	3.53e-06	2.62	0.009	2.33e-06 .0000162
empstatus01					
unemployed	-.0392439	.5661179	-0.07	0.945	-1.151932 1.073444
has other job	-.9185135	.3849588	-2.39	0.017	-1.675139 -.1618883
_cons	-1.08837	1.071473	-1.02	0.310	-3.194319 1.017579

Still owning after 4 years (in 2005)

(running logit on estimation sample)

Survey: Logistic regression

Number of strata	=	1	Number of obs	=	433
Number of PSUs	=	433	Population size	=	5,143.999
			Design df	=	432
			F(7, 426)	=	3.38
			Prob > F	=	0.0016

	Coef.	Linearized Std. Err.	t	P> t	[95% Conf. Interval]	
newbizstillalive0105						
black01	.0182435	.6375104	0.03	0.977	-1.234764	1.271251
valuebizfarm01adj	3.65e-06	1.54e-06	2.37	0.018	6.23e-07	6.67e-06
nobiznoeqwealth01adj	-1.09e-06	4.87e-07	-2.23	0.026	-2.04e-06	-1.29e-07
edyears01	.225297	.1053133	2.14	0.033	.0183067	.4322872
income01	3.67e-06	2.86e-06	1.29	0.199	-1.94e-06	9.29e-06
empstatus01						
unemployed	-.1531255	.6762599	-0.23	0.821	-1.482294	1.176044
has other job	-.9141406	.4578774	-2.00	0.047	-1.814085	-.0141961
_cons	-4.525834	1.517432	-2.98	0.003	-7.508303	-1.543365

Still owning after 6 years (in 2007)

(running logit on estimation sample)

Survey: Logistic regression

Number of strata	=	1	Number of obs	=	433
Number of PSUs	=	433	Population size	=	5,143.999
			Design df	=	432
			F(7, 426)	=	3.57
			Prob > F	=	0.0010

	Coef.	Linearized Std. Err.	t	P> t	[95% Conf. Interval]	
newbizstillalive0107						
black01	.3079747	.6413258	0.48	0.631	-.9525323	1.568482
valuebizfarm01adj	4.15e-06	1.48e-06	2.80	0.005	1.24e-06	7.05e-06
nobiznoeqwealth01adj	-8.58e-07	4.29e-07	-2.00	0.046	-1.70e-06	-1.56e-08
edyears01	.3464198	.1364247	2.54	0.011	.0782811	.6145585
income01	3.12e-06	3.10e-06	1.01	0.315	-2.97e-06	9.22e-06
empstatus01						
unemployed	.0661669	.7522318	0.09	0.930	-1.412322	1.544656
has other job	-.7864523	.5429208	-1.45	0.148	-1.853547	.2806426
_cons	-6.907599	1.952039	-3.54	0.000	-10.74427	-3.070924

New 2005 Entrepreneurs

These models were run on respondents who reported owning a business in 2005 but did **not** report owning a business in 2003. They are run using 2005 weights.

Still owning after 2 years (in 2007)

(running logit on estimation sample)

Survey: Logistic regression

Number of strata	=	1	Number of obs	=	210
Number of PSUs	=	210	Population size	=	4,755.294
			Design df	=	209
			F(7, 203)	=	1.42
			Prob > F	=	0.1973

	Coef.	Linearized Std. Err.	t	P> t	[95% Conf. Interval]	
newbizstillalive0507						
black05	.66358	.7526378	0.88	0.379	-.8201547	2.147315
valuebizfarm05adj	-2.38e-07	2.66e-07	-0.89	0.373	-7.62e-07	2.87e-07
nobiznoeqwealth05adj	9.05e-08	1.23e-07	0.74	0.462	-1.52e-07	3.33e-07
edyears05	.1741007	.079857	2.18	0.030	.0166722	.3315292
income05	-1.09e-07	9.50e-07	-0.11	0.909	-1.98e-06	1.76e-06
empstatus05						
unemployed	-.2960327	.5792391	-0.51	0.610	-1.437933	.8458672
has other job	-.6601426	.3690815	-1.79	0.075	-1.387742	.0674571
_cons	-2.305838	1.112864	-2.07	0.039	-4.499715	-.1119605

Still owning after 4 years (in 2009)

(running logit on estimation sample)

Survey: Logistic regression

Number of strata	=	1	Number of obs	=	210
Number of PSUs	=	210	Population size	=	4,755.294
			Design df	=	209
			F(7, 203)	=	1.88
			Prob > F	=	0.0749

	Coef.	Linearized Std. Err.	t	P> t	[95% Conf. Interval]	
newbizstillalive0509						
black05	-1.320081	.7572011	-1.74	0.083	-2.812812	.1726495
valuebizfarm05adj	-6.37e-07	4.35e-07	-1.46	0.144	-1.49e-06	2.20e-07
nobiznoeqwealth05adj	4.63e-08	4.09e-08	1.13	0.258	-3.43e-08	1.27e-07
edyears05	.1634559	.0827996	1.97	0.050	.0002265	.3266853
income05	-3.92e-07	1.24e-06	-0.32	0.752	-2.84e-06	2.05e-06
empstatus05						
unemployed	-.0630223	.6261835	-0.10	0.920	-1.297468	1.171423
has other job	-.4063069	.3858742	-1.05	0.294	-1.167011	.3543976
_cons	-2.765658	1.199241	-2.31	0.022	-5.129817	-.4014991

Still owning after 6 years (in 2011)

Survey: Logistic regression

Number of strata	=	1	Number of obs	=	210
Number of PSUs	=	210	Population size	=	4,755.294
			Design df	=	209
			F(7, 203)	=	2.08
			Prob > F	=	0.0474

	Coef.	Linearized Std. Err.	t	P> t	[95% Conf. Interval]	
newbizstillalive0511						
black05	-2.014463	1.02726	-1.96	0.051	-4.039582	.0106559
valuebizfarm05adj	-4.54e-07	3.93e-07	-1.16	0.249	-1.23e-06	3.21e-07
nobiznoeqwealth05adj	7.21e-08	5.12e-08	1.41	0.161	-2.89e-08	1.73e-07
edyears05	.0985862	.0832825	1.18	0.238	-.0655951	.2627676
income05	-1.09e-06	1.76e-06	-0.62	0.536	-4.57e-06	2.38e-06
empstatus05						
unemployed	-.3308124	.654551	-0.51	0.614	-1.621181	.959556
has other job	-.9484699	.4234438	-2.24	0.026	-1.783238	-.1137015
_cons	-1.917408	1.174707	-1.63	0.104	-4.233202	.3983852

Entrepreneurship and Financial Wellbeing Redefining Risk: Racial Disparities in



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