

ENTREPRENEURSHIP POLICY DIGEST

DECEMBER 5, 2016

INCLUDING PEOPLE OF COLOR IN THE PROMISE OF ENTREPRENEURSHIP

Startup activity is [on the rise](#), but entrepreneurs of color remain underrepresented and have disparate experiences. For example, businesses started by people of color perform differently than white-owned businesses. [White-owned firms](#) had double (\$2.38 million) the average sales of Asian (\$1.19 million), Hispanic (\$1.12 million), and black-owned (\$0.91 million) businesses. In addition, black- and Hispanic-owned businesses have [higher failure rates](#) than do white- and Asian-owned firms. Reasons include [industry differences](#), with black-owned businesses being overrepresented in less-successful industries (for example, in the personal services industry), as well as entrepreneurs of color starting their businesses with less capital than their white counterparts.

As the United States becomes a [more racially diverse country](#), a continued disparity in entrepreneurship among people of color portends further inequality and slow economic growth. Closing this gap requires an understanding of the unique challenges that confront entrepreneurs of color and a commitment from the private and public sectors to broaden entrepreneurial opportunity.

ENTREPRENEURSHIP: A PATH TO ECONOMIC SECURITY

WEALTH CREATION

U.S. entrepreneurs hold an impressive amount of wealth. While about one in ten American workers, or 13 million people, are self-employed, they hold [37 percent of all wealth in the United States](#). The underrepresentation of people of color in this wealthy group has implications for racial income inequality and wealth disparity.

JOB CREATION

An increase in entrepreneurship among people of color can create income for both the entrepreneur and people of color that work at the firm. For example, a 10 percent increase in the number of employees and firms owned by people of color could have huge implications for job creation. Assuming that half of employees working at businesses owned by people of color are also people of color, this increase could lead to [approximately 1 million new jobs](#) for people of color.

CHALLENGES TO OVERCOME

America's complex racial history has created unique and stubbornly persistent challenges for people of color. Systemic social barriers that plague people and communities of color can also wreak havoc on entrepreneurial ventures. Research shows that education, financial assets, and exposure to entrepreneurship help explain some of the racial disparities in both entrepreneurship rates and entrepreneurial success.

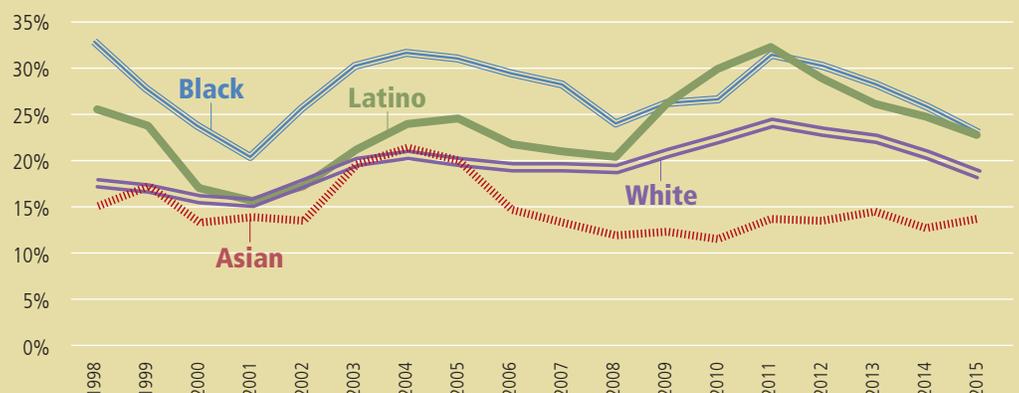
EDUCATION

- Entrepreneurs that graduate college are [more likely to have sales](#) totaling more than \$100,000 and more paid employees than high school graduates or dropouts do.
- Asian and white Americans are more likely to have [college degrees](#) (50 percent and 29 percent respectively) than their black (18 percent) and Latino (13 percent) counterparts.

Necessity entrepreneurs are more likely to start businesses with lower growth potential.

While necessity entrepreneurship has decreased since the Great Recession, blacks and Latinos remain more likely than their white and Asian counterparts to become necessity entrepreneurs (creating businesses while unemployed).

PERCENT BY RACE OF NEW ENTREPRENEURS UNEMPLOYED BEFORE STARTING THEIR BUSINESSES



ASSETS

- [More than two-thirds](#) of entrepreneurs use personal savings as a source of funding, and more than one in five rely on family for funding.
- White households' median wealth is [twenty times larger](#) than black households' and eighteen times larger than Hispanic households'.
- Access to initial capital strongly impacts a firm's chance of success. Research suggests [approximately 15 percent](#) of the difference in startup rates among black and white Americans can be explained by differences in assets.
- According to the [Annual Survey of Entrepreneurs](#), among firms that started with at least \$100,000 in capital, 82 percent are white-owned, 13 percent are Asian-owned, 4 percent are Hispanic-owned, and 1 percent are black-owned.
- Firms that have at least \$100,000 in startup capital are [23 percent less likely](#) to fail than firms with \$5,000 or less in startup capital.

FAMILY ENTREPRENEURIAL INVOLVEMENT

- Previous low rates of entrepreneurship among people of color can impact future rates of entrepreneurship.
- People who know entrepreneurs are [more likely to become entrepreneurs](#), and [exposure to entrepreneurship](#) raises the probability of engaging in it. Before starting a business, more than half of all business owners had a family member who was self-employed.
- [Nearly a quarter](#) of all entrepreneurs worked in a family business before acquiring it or starting one of their own.

POLICIES TO CLOSE THE GAP

INCREASE EXPOSURE TO ENTREPRENEURSHIP

- Create internships and apprenticeships to help young people of color learn more about entrepreneurship. Programs like Louisville's [SummerWorks](#), which teaches high school students about [starting and managing a business](#) during the summer months of high school, can be an effective way to increase entrepreneurship among people of color.

MAKE ENTREPRENEURIAL SUPPORT ORGANIZATIONS MORE INCLUSIVE

- Encourage entrepreneurship support organizations, particularly when receiving government funding, to develop metrics to track entrance and retention rates of entrepreneurs of color. This data can help identify challenges to address.

IN THEIR OWN WORDS: Outlining the Challenges Facing Entrepreneurs of Color

We interviewed entrepreneurs of color to discuss the unique challenges they face as they launch, fund and sustain their businesses. Here are some excerpts.

ACCESS TO CAPITAL "Access to capital... is probably the biggest piece. These entrepreneurs don't have the capital they need to start the businesses they want to start. Some of that has to do with management, or business planning, or structure. Some of it has to do with credit issues. And some of it, unfortunately, has to do with [the fact that] we are still dealing with racial injustices."

*John Voner, Urban Savannah Chamber of Commerce
The Voner Group LLC, Savannah, GA*

DOUBLE NEGATIVE BIAS "In entrepreneurship, the level of benefit has to be 100 times more valuable when you're a person of color. And, as a woman, it's a double negative when you're African American and female. Ninety-eight percent of the tables I sit at, I am either the only African-American or I am the only woman or both. Take it this way: You have a seat at the table, but can you keep it?"

*Sarah Lee, Interconnected Consulting Services, LLC
Ocala, FL*

LACK OF FUNDER DIVERSITY "There are quite a few entrepreneurs that have a business idea that very much solves a problem in their own community but does not solve problems of white people. The investors who are mostly white do not see the need for the business because they do not understand the community. Therefore, they end up not investing in them."

*Nnena Ukuku, Venture Gained Legal
Black Founders Startup Ventures, San Francisco, CA*

NETWORK "I have to show my startup is worth funding through other means and find a way to skip the friends and family round and just get to the seed round, which is usually \$500,000. That's a big problem. They have to consider who they are talking to. When you come from a low-income family, generally, you don't have that connection to people who have money."

Chandra Arthur, Friendish, Orlando, FL

FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- Read the [Minority Business Development Agency's report](#) on racial disparities of capital access.
- Check out Kauffman's [Growthology](#) blog about how racial wealth disparity can hinder entrepreneurship.
- Stay up to date with the [Kauffman Inclusion Challenge](#), which funded entrepreneur support organizations that help entrepreneurs of color and women entrepreneurs achieve higher rates of success.
- Learn more about the [importance of relationships in lending decisions](#) and how this can positively impact entrepreneurs of color.



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