

# Observations on Minority Businesses

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# Background

**A major part of a strategy to enrich U.S. global competitiveness and support rising U.S. living standards is to enable U.S. residents with talent and innovative business ideas to actualize their potential contributions to the U.S. economy.**

# Background

**In the coming years, the firms in the small business sector—a major contributor to U.S. economic competitiveness—will increasingly be owned by people of color:**

- U.S. population will become more racially and ethnically diverse.**
- Minority persons will start businesses at a faster rate than will their non-minority peers.**
- Relative survival rate of firms started by minorities will increase.**

# Background

- **Latest data: small businesses owned by minorities underperform relative to small businesses owned by non-minorities.**
- **Hispanic: 16% of population, 8.3% of firms, producing 1.1% of business revenues.**
- **Black: 13% of population, 7.1% of firms, producing 0.5% of business revenues.**

# Background

- **Asian: 4.8% of population, 5.7% of firms, producing 1.7% of business revenues.**
- **American Indian & Alaska Native: 1.5% of population, 0.9% of firms, producing 0.1% of business revenues.**

# Background

- **To implement programs and policies that sustain a thriving minority business sector, we must understand the challenges that minority entrepreneurs face.**
- **Through the Kauffman Foundation sponsorship, I conducted research on the studies on minority businesses published in the economics-related peer reviewed scholarly journals between January 2000 and June 2013. I updated this study in 2014.**
- **Provides core knowledge amount minority owned businesses as we move further into the 21<sup>st</sup> Century.**

# Framework

Three key ingredients for the success of a small-business (Bates, 2011):

- **Management**: Leadership of a skilled and capable entrepreneur. (151 studies)
- **Money**: Access to sufficient financial capital to achieve scale, buffer losses and exploit business opportunities. (48 studies)
- **Markets**: Awareness of and access to markets in which to successfully sell the firm's products. (93 studies)

# Framework

**In addition to the 3 Ms, research on minority entrepreneurs can be grouped by entry status:**

- Traits that distinguish persons seeking to start a business (Nascent Entrepreneur or “NE”) from those not seeking to start a business.**
- NE performance: traits that distinguish the NEs who successfully start firms from those who do not.**
- Existing firms: Traits and performance characteristics of operating firms.**

# Findings

**Traits and relationships: 21**

**I will mention several that are relevant for our discussion today.**

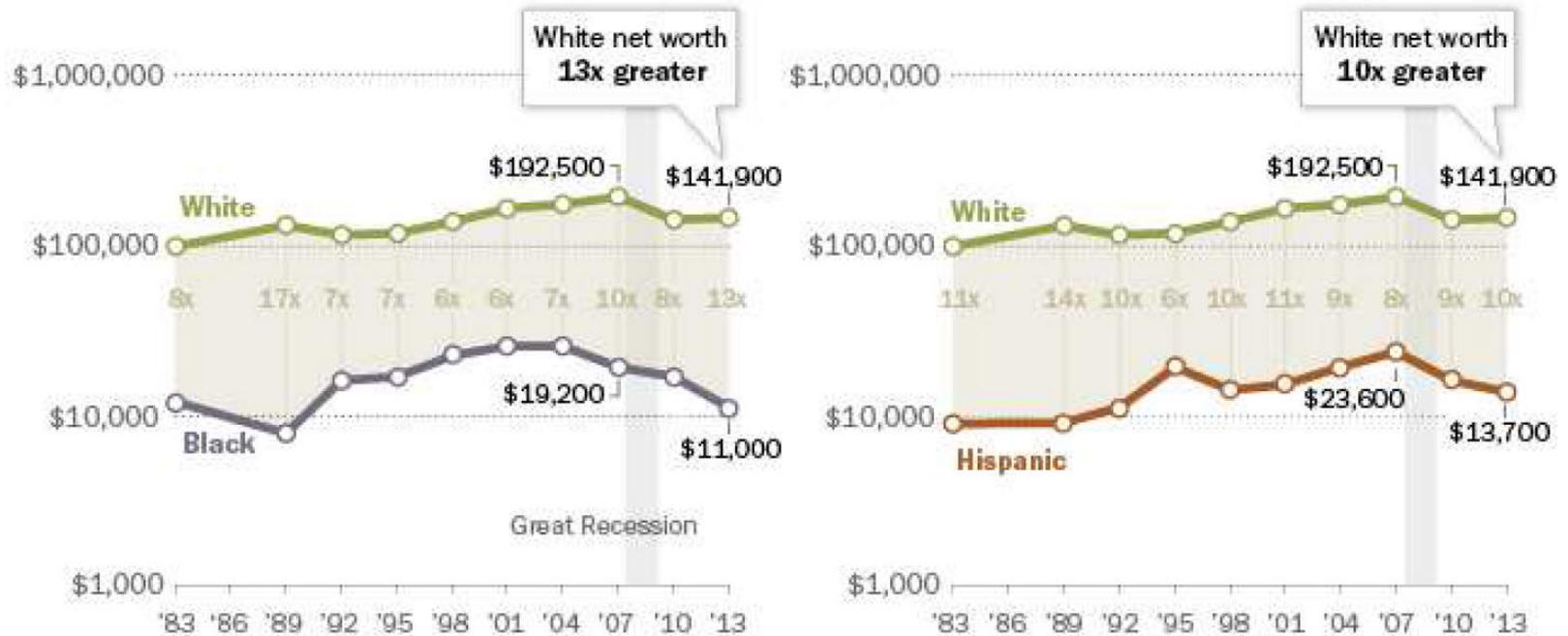
# Money: Recent Changes

- **From 2010 to 2013, the median wealth of non-Hispanic white households increased from \$138,600 to \$141,900, or by 2.4%.**
- **Meanwhile, the median wealth of non-Hispanic black households fell 33.7%, from \$16,600 in 2010 to \$11,000 in 2013.**
- **Among Hispanics, median wealth decreased by 14.3%, from \$16,000 to \$13,700.**

# Money

## Racial, Ethnic Wealth Gaps Have Grown Since Great Recession

Median net worth of households, in 2013 dollars



Notes: Blacks and whites include only non-Hispanics. Hispanics are of any race. Chart scale is logarithmic; each gridline is ten times greater than the gridline below it. Great Recession began Dec. '07 and ended June '09.  
 Source: Pew Research Center tabulations of Survey of Consumer Finances public-use data

# Findings: Studies on Money

- **Minority firms—black-owned and Hispanic-owned businesses in particular—experience less favorable loan application outcomes than do non-Hispanic white owned businesses, after controlling for firm and owner traits.**

	Unexplained Differences Found?*	SSBF 1987	SSBF 1993	SSBF 1998	SSBF 2003	PSED II	CPS
Asiedu et al. (2012)	Yes			X	X		
Blanchard et al. 2008	Yes		X	X			
Blanchflower et al. (2005)	Yes		X	X			
Cavalluzzo & Wolken (2005)	Yes			X			
Cavalluzzo et. al. (2002)	Yes		X				
Coleman (2008)	Yes				X		
Chatterji and Seamons (2012)	Yes						X
Mitchell & Pearce (2011)	Yes			X			
Gartner et al. (2012)	Yes					X	
Mijid & Bernasek (2013)	Yes	X	X	X	X		
Casey (2012)	Yes					X	

\*Racial differences in loan outcomes not explained by owner and firm traits.

# Money

- **The magnitude of financing available affects the line of business that the NE will pursue. (e.g. Cassar, 2006).**
- **For operating firms, the higher the amount of start-up capital, the better the firm performance (e.g. Headd, 2003)**
- **For each ethnic group of businesses, most business start-ups use no debt financing.**

# Management

- **For established businesses, owner education is positively related to firm performance.**
- **Managerial experience and industry experience are positively related to firm performance.**
- **Start-up experience are not found to be consistently and strongly related to firm performance.**

# Management and Money

- **Lower management related background, lower equity and lower access to bank loans:**
  - **influence black and Hispanic entrepreneurs to disproportionately enter industries with lower capital requirements and higher failure rates (Lofstrom and Bates, 2013; Cassar, 2006)**
  - **weakens black and Hispanic firms' abilities to buffer losses and finance growth if early stages are survived (Headd, 2003).**

## ...However, improvement in educational background, e.g., degrees awarded to African-Americans:

			<i>Percentage Change</i>
	<i>1976</i>	<i>2008–2009</i>	<i>1976–2008</i>
Bachelor's degrees			
Education	14,209	6,645	–53.3%
Business	9,489	39,532	316.6%
Engineering	1,370	3,259	137.9%
MBA degree	1,549	23,220	1399.0%

*Source:* Bates, 2006; U.S. Department of Education, National Center for Educational Statistics.

# Markets

- **Minority businesses are disproportionately located in urban areas and disproportionately serve ethnic retail markets (e.g. Wang, 2012).**
- **Minority businesses that focus on co-ethnic retail markets underperform those that do not focus on co-ethnic retail markets (e.g. Shinnar et al. 2011, Bates and Robb, 2008).**

# Markets

- **Minority businesses that cater to government markets achieve increased sales through government procurement programs (e. g. Chatterji et al. 2010, Fairlie and Marion, 2012).**
- **The long term impact of preferential minority business government procurement programs on the viability of minority businesses is uncertain. On the question of whether such programs have been positive or negative for individual firms, there is mixed evidence. (e.g. Bates, 2009).**
- **No scholarly research on private sector procurement programs for minority businesses.**

# Placing Minority Entrepreneurship into Context

- **Successful entrepreneurship in the U.S. raises the economic status of the U.S. as it competes globally. (Porter, 2012).**
- **Successful entrepreneurship among minorities can reduce the racial disparity in economic well-being. (Bradford, 2003, 2014).**
- **Successful entrepreneurship allows individuals to fulfill their potential to create value for themselves and others.**

# The “Myth” That Black Entrepreneurship Can Reduce the Gap in Wealth Between Black and White Families

Economic Development Quarterly  
1–16

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## Abstract

Does business ownership reduce the wealth disparity between Black and White households? The author uses Panel Study of Income Dynamics (PSID) data on family wealth in 1999 through 2009 to examine the levels of wealth and changes in wealth of entrepreneurs and workers among Black and White families. Black entrepreneurs (self-employed) have higher wealth levels and more upward wealth mobility than do Black workers. The upward wealth mobility of Black entrepreneurs is equivalent to that of White entrepreneurs, while the wealth mobility of White entrepreneurs is greater than that of White workers. These findings are consistent with Black entrepreneurship reducing the wealth disparity between Black and White families.

# Relevant Relationships Concerning Business Success

- **Part-time transitions into entrepreneurship have higher success rates**
- **Multi-owned firms have higher success rates**

# Bradford's foundations for entrepreneurial success

- **Plan for growth**
- **Constantly evaluate performance  
[Create, Update, Evaluate]**
- **Protect the firm against bad surprises**

**Thank You!**