

# Study: Black entrepreneurship in the United States

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Credit: Josh Hawkins/UNLV Creative Services

A steady stream of media reports detailing the deaths of unarmed Black Americans at the hands of police. False 911 calls aimed at bringing harm to African Americans engaged in innocuous, everyday activities. Street

protests calling for an end to discrimination and police brutality.

As racial tensions swirled this summer, so did calls on social media for those who support the social justice movement for African American civil rights to amplify Black voices and support Black businesses.

One problem? A lag in Black entrepreneurship and corresponding deficit in Black businesses available to support—a result of hundreds of years of racial discrimination in the United States—says Tiffiany Howard, a UNLV political science professor and recent Congressional Black Caucus Foundation (CBCF) senior research fellow.

In a new study, Howard and her CBCF colleagues researched strategies that large banks can implement to help bridge the economic divide.

"There are many advantages of entrepreneurship—one of them being it promotes substantial economic growth," Howard says. "According to the Survey of Business Owners, the existing number of Black-owned businesses have created over 1 million jobs and generated over \$165 billion in revenue. Another important advantage of entrepreneurship is that successful business ownership is one mode for achieving personal wealth. The wealth differential between business owners and non-business owners is significant, and this wealth advantage is even more pronounced for minorities and women."

For example, Howard says, the median net worth for Black business owners is 12 times higher than Black non-business owners. Further, when examining the net worth of Black business owners in comparison to the net worth of white business owners, it becomes clear that entrepreneurship represents a pathway to narrowing the racial wealth gap. While whites have 13 times the wealth of African Americans, when comparing the median wealth of Black and white business owners, the median wealth gap decreases substantially.

"What these figures illustrate is that Black business ownership, more so than even education," she says, "is a tangible pathway for African Americans to achieve economic parity and close the racial wealth gap."

We caught up with Howard to explore the history of Black entrepreneurship in the U.S., barriers to growth, the impact on African American communities and families, and procedural and financial investments that commercial and retail banks can employ to help shore up the gap.

## **Statistically, how does Black entrepreneurship in the U.S. stack up when compared to other racial/ethnic groups?**

Although African American business ownership remains on the rise and is continually increasing, growth has been incremental. In 2014, African Americans owned 2% of U.S.-based companies. In 2017, this figure inched to 3.5%. Despite this increase, Black-owned businesses continue to lag behind that of whites and other minorities in terms of market share. In 2017, white-owned businesses accounted for 81% of all U.S. companies, with Asian- and Hispanic-owned firms comprising 9.7% and 5.8% of the market share, respectively.

## **When did African Americans first begin pursuing entrepreneurship?**

African Americans have a long and rich history of entrepreneurship. Within two decades of the abolition of slavery, African Americans established several thousand successful businesses that thrived in exclusively African American communities (i.e. Black Wall Street of Tulsa, Oklahoma).

However, the escalation of racial tensions and Jim Crow laws made these businesses vulnerable to targeting and destruction. With few resources available to Black business owners to rebuild if their businesses fell victim, African American business ownership began to steadily decline beginning in the early 1940s. Black business ownership remained stagnant for several decades before resurging again in the early 1980s. While growth has been slow, Black business ownership has continued its upward trajectory ever since, despite the ongoing challenges of having to continually confront structural and institutional racism.

## **How has America's history of slavery, Jim Crow laws, and racial discrimination impacted Black entrepreneurial growth?**

Structural and institutional racism allude to the systematic biases that are embedded within a given society. Several studies have documented that racial discrimination is a significant impediment for Black-owned businesses.

For example, a recent study conducted by a team of researchers from the National Community Reinvestment Coalition, Utah State University, Brigham Young University, Rutgers University, and Lubin Research found that banks were three times more likely to request follow-up appointments with white business owners than better-qualified Black business owners, and the Black business owners were subjected to far greater personal and financial scrutiny compared to their equal or less creditworthy white counterparts. The report concluded that it was access, and not just assets, that serves as an obstacle for Black-owned businesses to acquire the capital and credit necessary to start and grow a business. The findings illustrate the need for greater legislative and regulatory oversight. And while laws prohibiting loan discrimination on the basis of race have been enacted, there is an obvious need for regulatory agencies

to provide greater enforcement of existing legislation that protects Black-owned businesses from discrimination.

Another significant factor in the approval rating of business loans to African American entrepreneurs is the location of the business. A substantial proportion of Black-owned businesses are located in [geographic areas](#) that serve the needs of African Americans. However, these areas are generally characterized as low-income, urban communities. These areas exhibit low rates of home ownership, depressed property and real estate values, and marginal property tax revenue. Consequently, these neighborhoods depend upon small businesses to support their economies, but there is no economic incentive for banks to invest in these communities because the return on their investment is not substantial.

This dynamic underscores how normalized institutional racism has become to the lending process. Since the 1930s, because of white discrimination, most Black-owned businesses have been forced to locate and remain in Black communities, despite research that finds that when market conditions permit ethnic businesses to provide goods and services to non-ethnics, opportunities for mobility increase significantly. This relegation of Black-owned businesses to ethnic enclaves is indicative of historical patterns of structural racism and neighborhood exclusion that continue to negatively affect opportunities for Black entrepreneurs today.

## **What role does financial literacy play in Black entrepreneurship?**

In our survey of African American adults ages 18 to 30 who are interested in entrepreneurship, 82% of respondents didn't demonstrate financial literacy—knowledge of one's own credit score, basic

knowledge of the Minority Business Development Agency or Small Business Administration, and knowledge of the minimum years of operation typically required for a business owner to apply for a small business loan from a traditional bank.

Securing startup capital requires an understanding of the factors lenders use to evaluate an individual's credit worthiness. Our research supports other key studies, which show that this knowledge deficit isn't unique to Black youth. However, according to the Financial Literacy and Wellness Among African-Americans report, African American financial literacy lags behind that of whites. On average, African Americans responded correctly to 38% of the Personal Finance Index questions correctly, while whites responded correctly to 55% of the same questions.

Poor credit worthiness is the result of a lack of financial literacy across the African American lifespan, which is an educational issue.

## **How do disparities in Black business ownership affect Black families and communities, especially in areas that remain segregated today?**

The lack of Black-owned businesses, especially within the Black community, has tremendous implications for Black families. When we consider these factors, we often think of neighborhoods that lack resources and suffer from neglect, which are certainly important and valid challenges that segregated, primarily urban Black communities face. However, an often overlooked phenomenon is that the lack of Black businesses in the Black community has a huge impact on racial health disparities, which —given the ongoing global pandemic—have become central to the broader discussion.

The lack of Black business ownership has had the greatest impact on the

African American community with respect to the food and beverage industry. African Americans face high rates of food insecurity and are most likely to live in areas characterized as "food deserts" —low-income areas located more than 1 mile from a supermarket, or where there's a great distance between a grocery store and the nearest fast food restaurant. So, in communities where fast food restaurants are predominant, food options may be plentiful, but the poor quality of the food options and lack of healthy food sources creates a food desert because residents are less likely to make healthy food decisions.

The short-term implications for African Americans and other minorities who live in these areas is that they have fewer options and must travel farther and pay higher prices for food than residents who live in food oases. In the long-term, the diets of residents of food deserts reflect their limited choices. Their diets lack nutrients and consist primarily of processed food, which results in individuals consuming substantially more than the recommended daily intake of fat, salt, and sugar. Nutrient-poor diets put African Americans at a higher risk for obesity, diabetes, hypertension, and heart disease. Poor diet has also been linked to impaired cognitive development of adolescents and can have a negative impact on educational outcomes. Lastly, a poor diet increases adolescent vulnerability to illness because poor nutrition contributes to a weakened immune system.

The main takeaway here is that the discussion surrounding health, especially with respect to chronic disease, often attributes poor health to poor decisions regarding food choices and lifestyle factors. However, what is missing from this discourse is the absence of choice that living in a food desert creates. Food deserts are at the root of poor health outcomes for African Americans. They increase the risk for chronic health conditions, which can then contribute to greater financial barriers to affordable health care.

## **What are some creative ways that Black entrepreneurs have managed to overcome these barriers?**

African American entrepreneurs have been innovators in the use of technology and social media. Black entrepreneurs are increasingly leveraging crowdsourcing and equity crowdfunding platforms to circumvent institutional obstacles to capital, while social media has also allowed them to forge extensive social capital networks vital to business creation and growth. Furthermore, more Black businesses, particularly those owned and operated by the younger generation, have begun to recognize the advantages of cryptocurrency. By accepting cryptocurrency (i.e. Bitcoin) as a method of payment, they are able to eliminate third-party intermediaries, credit card transaction costs, and decrease transaction processing time so that their businesses receive payment faster.

## **What were your study's findings surrounding the small business loan process?**

I believe that automating the small business loan process would remove the human element that contributes to the biases that disadvantage Black business owners when seeking a loan and lead to more responsible banking practices overall. By using an algorithm, the process is more objective and resistant to biases, which ensures compliance.

Furthermore, the entire process would now be more transparent, and [business owners](#) would have the ability to track each step of the process. Therefore, even if a business owner is ultimately denied, they can use the feedback provided to strengthen their credit profile. Also, transparency engenders trust, and consumers are more likely to utilize a bank and their products if they believe they can trust the institution.



## **What else can major commercial and retail banking institutions do to better support Black entrepreneurs and businesses?**

Banks can better support Black businesses by investing in institutions that promote Black business ownership and African American entrepreneurship. This can largely be done by funding mission-driven programs that provide startup capital and technical resources.

Banks currently invest in supportive programs, such as community development financial institutions, which lend to Black businesses and provide Black entrepreneurs with technical assistance. However, large banks can do more by incentivizing these institutions to hire more diverse leadership. Additionally, large banks and financial institutions can expand their contributions to the types of organizations that might directly contribute to developing entrepreneurial ecosystems, such as historically Black colleges and universities, minority-serving educational institutions, and their entrepreneurial development centers.

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