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Summary Report: The State of Black Entrepreneurship in the United States: Education, Labor Activity, and Access to Capital

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The State of Black Entrepreneurship in the United States: Education, Labor Activity, and Access to Capital

A Research Report

Prepared for
Impact America

August 27, 2012
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EXECUTIVE SUMMARY

This researched report is in response to a request from Impact America as the firm launches its initiative to support entrepreneurship at historically black colleges and universities in the U.S.. Specifically, this report includes information on education and occupations of Black Americans, unemployment and entrepreneurship rates by race, and access to capital for Black Americans.

What is entrepreneurship?

Occupational definition:

- Entrepreneurs are the self-employed (not unemployed, not in wage employment)
- Measured either statically (the number of self-employed) or dynamically (the rate of start-ups)

What is an entrepreneur?

Behavioral definition

- Coordinates production; agent of change; innovates (1)
- Facilitates change; spots opportunities for profit (2)
- Starts and continues to expand new businesses (3)
- Often, but not necessarily new firms.

Why do we want to support entrepreneurship?

- In advanced economies, entrepreneurship allows for obtaining new sources of productivity growth and therefore competitiveness.

Is our advanced economy serving and utilizing black entrepreneurship to the fullest?

- In developing economies, entrepreneurship starts and accelerates growth, and is the impetus to the structural transformation.

Are Black Americans faced with similar barriers to entry as those faced by entrepreneurs in developing economies

What do we need for entrepreneurship to thrive?

A strong financial system influences decisions to invest in productivity-enhancing activities through two mechanisms: allowing for the evaluation of prospective entrepreneurs and acting as a vehicle to fund the most promising entrepreneurs (4). Barriers of entry include the absence of credit markets, courts and other market institutions (5).

How can we create, support or substitute for a strong financial system for Black entrepreneurs?

RESEARCH FINDINGS

Education

- At the undergraduate level and graduate level, black students study business at a higher rate than all other minority groups and white students. In fact, blacks are 22% more likely to be awarded an undergraduate business degree than white students, and this difference increases to 43% at the graduate level.
- Business is the most frequently-awarded degree for black students at the undergraduate, graduate and doctoral levels (7).
- Blacks 25 years and older with a high school diploma are about twice as likely to be unemployed as their white peers (6).
- Blacks with a bachelor's degree or higher are 1.5 times as likely to be unemployed as their white counterparts (6).

Industry

- The two industries employing the largest number of blacks are Wholesale and Retail Trade, and Education and Health Services (8).
- Over 20% of all African American-owned firms are in Health Care and Social Assistance, which is the largest industry sector for African American firms (See Fig. A) (9).

Jobs

- The top ten occupations held by Black Americans are:
 - barbers
 - nursing, psychiatric, and home health aides
 - baggage porters, bellhops, and concierges
 - postal service clerks
 - security guards and gaming surveillance officers
 - taxi drivers and chauffeurs
 - crossing guards
 - parking lot attendants
 - residential advisors
 - bus drivers (8)
- There are 34% more black workers than white workers holding service occupations (See Fig. B) (8).
- There are 43% more black workers than white workers holding natural resources, construction, and maintenance occupations (8).

Unemployment

- African American unemployment rates have consistently been almost double that of whites (See Fig. C) (10).
- As of April 2012, the unemployment rates for whites and blacks are 7.4% and 13% respectively (11).
- In all states, workers of color have a greater unemployment rate than whites (12).

- There are steep increases in the unemployment rate for all ethnicities during times of recessions, suggesting that recessions are not bias towards any particular race (10).
- In 2010, if blacks had the same unemployment rate as whites, an additional 1.3 million blacks would have been employed (6).

Start-up Capital

- Prior research reveals that women and minority borrowers experience greater difficulty securing loans than white male borrowers (13).
- Minority entrepreneurs are more likely to use more expensive sources of capital, such as credit cards, and less likely to use lower-cost capital, such as bank loans to start or acquire a business (14).
- Only 5.7% of black business owners use a business loan from a bank as a source of capital.
- 50% of black business owners use personal/family savings and 33% need no capital to start or acquire a business (See Fig. D) (14).
- Even controlling for differences in educational level, black men are significantly less likely than all other gendered racial groups to be approved for their most recent loan request (13).
- Black men were significantly less likely than all other gendered racial groups to apply for loans because they assume they would be denied (13).

Business/Entrepreneurial Activity

- While there has been a trending increase in entrepreneurial activity for African Americans, the African American entrepreneurial activity rate decreased from 0.27% in 2009 to 0.24% in 2010 (See Fig. E) (15).
- In 2002, the growth of African American-owned firms outpaced the national rate, as they grew by 45% compared to 10% for all classifiable firms (9)
- Even though rates of nascent entrepreneurship among black adults are about 50% higher than that for whites, white adults are more likely than blacks to be self-employed business owners (16).
- The 3 to 1 ratio of white to black self-employment rates has remained roughly constant over the past 90 years (16).

Revenues

- In 2002, gross receipts for African American firms increased by 24%, surpassing the growth rates for all other groups and all classifiable firms (9).

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African American Business Representation by Industry Sector, 2002

Figure A

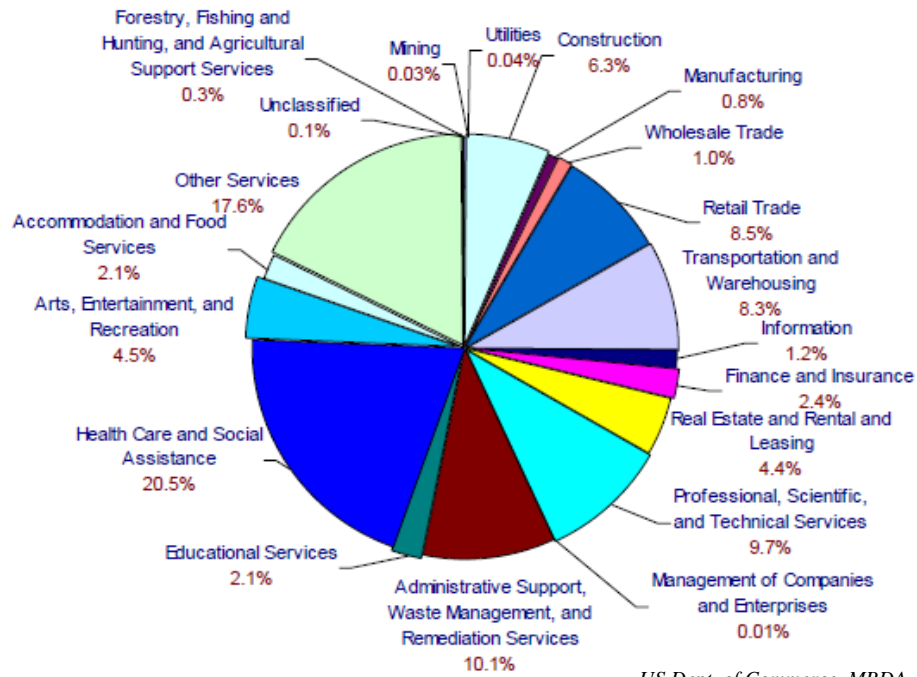


Figure B

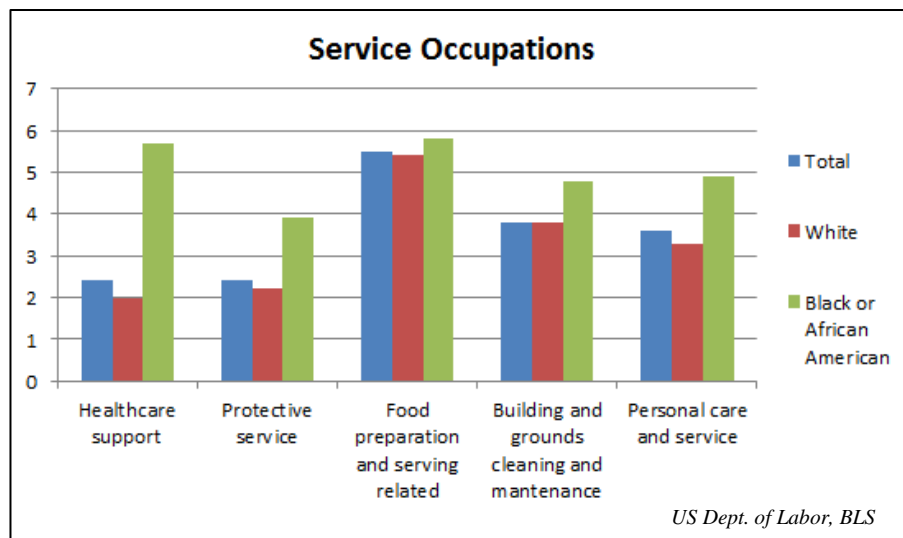


Figure C

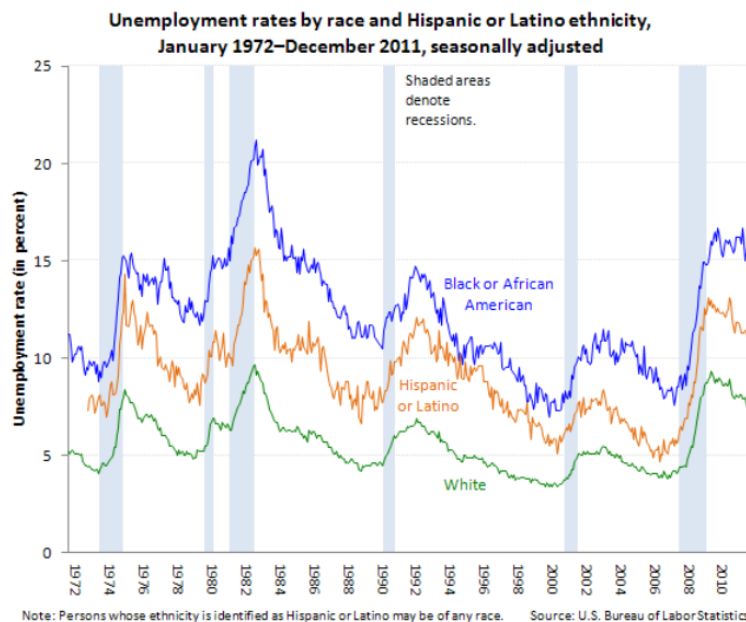


Figure D

Sources of Capital Used to Start or Acquire the Business by Race/Ethnic Group, 2002³⁶

Respondent Group	Personal/Family Savings	Other Personal/Family Assets	Personal/Business Credit Card	Business Loan from Government	Government-guaranteed Bank Loan	Business Loan from Bank	Outside Investor	None Needed
African American	50.2%	7.1%	10.1%	1.1%	0.5%	5.7%	2.1%	33.0%
American Indian and Alaska Native	51.9%	10.0%	12.2%	1.0%	0.8%	7.8%	2.0%	30.8%
Asian	61.4%	8.9%	9.6%	1.0%	0.8%	10.2%	3.1%	22.6%
Hispanic	51.2%	6.7%	9.4%	0.8%	0.4%	5.6%	1.8%	33.1%
Native Hawaiian and Other Pacific Islander	52.6%	10.3%	12.7%	2.3%	0.4%	5.2%	2.1%	29.9%
Minority Firms	54.1%	7.7%	9.8%	1.0%	0.6%	7.2%	2.3%	29.7%
Non-Minority Firms	55.6%	9.3%	8.8%	0.8%	0.7%	12.0%	2.5%	27.4%
All Respondents	54.6%	9.0%	8.8%	0.9%	0.7%	11.4%	2.7%	27.7%
Publicly Held*	26.5%	6.7%	2.8%	2.6%	1.2%	14.0%	11.8%	27.5%

US Dept. of Commerce, MBD4

Figure E

