U.S. Black-Owned Businesses: Pre-Pandemic Trends & Challenges
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Fatima Dicko is the Founder & CEO of Sugar. Sugar makes residential properties feel like home by fostering community among residents and integrating deeply with the technology stack that powers modern buildings. The company has raised VC funding from some of the top investors in the PropTech sector. Before Sugar, she worked as the youngest senior engineer on a product innovation team at Procter & Gamble, receiving several awards such as ‘Most Transformative Product Research’ and the P&G ‘Global Innovation Seed Fund Grant’. Fatima came to the U.S. from Mali at a young age and grew up in New York City, receiving her B.S. in Chemical Engineering from Columbia University and MBA from Stanford Graduate School of Business. Fatima is a frequent mentor and volunteer for organizations such as Built By Girls, Black Girls Code and MLT.
INTRODUCTION

This research brief leverages multiple datasets from the U.S. Census Bureau to provide a summary of the state of Black-owned businesses in the United States. In order to better understand the unique challenges faced by Black entrepreneurs, we compare Black-, Latino-, and White-owned businesses across several dimensions.

As of 2017, we estimate that there were nearly 3 million Black-owned businesses in the United States, representing about 9% of all firms in the country. Controlling for the size of the U.S. population, we find that Black individuals own businesses at a significantly lower rate than the White population. Black-owned businesses also tend to be smaller on average than White-owned businesses in terms of both size and revenue — a phenomenon we refer to as “a scale-up gap”. However, despite these gaps, the number of Black-owned businesses grew at a faster rate than the number of White-owned businesses between 2012 and 2017.

In order to level the playing field for Black entrepreneurs, it is important to understand why Black-owned businesses tend to be smaller than both White- and Latino-owned businesses. While available data does not allow us to identify causes for the scale-up gap, we discuss how experiences reported by Black entrepreneurs with respect to access to capital and reasons for business closure reveal information that could drive some hypotheses.

BLACK INDIVIDUALS IN THE U.S. OWN BUSINESSES AT A SIGNIFICANTLY LOWER RATE THAN THE WHITE POPULATION, BUT AT A SIMILAR RATE TO LATINOS.

As shown in Figure 1 below, although Black individuals represent 12.3% of the U.S. population, only 8.9% of all U.S. businesses are Black-owned, translating to a Black Business Ownership Index of 0.72. While comparable to the Latino Business Ownership Index of 0.72, the index is significantly lower than the White Business Ownership Index of 1.13.

![Figure 1. Business Ownership Rate](image-url)

<table>
<thead>
<tr>
<th>U.S. POPULATION SHARE</th>
<th>BLACK</th>
<th>LATINO</th>
<th>WHITE</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHARE OF BUSINESSES</td>
<td>12.3%</td>
<td>18.1%</td>
<td>60.6%</td>
<td>9.0%</td>
</tr>
<tr>
<td>BUSINESS OWNERSHIP INDEX (Ratio of Share of Businesses to U.S. Population Share)</td>
<td>0.72</td>
<td>0.72</td>
<td>1.13</td>
<td>1.07</td>
</tr>
</tbody>
</table>

**Figure 1. Business Ownership Rate**

**SOURCE:** U.S. Census Bureau’s 2017 Nonemployer Statistics by Demographics, 2018 Annual Business Survey, and 2017 American Community Survey

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i We use 2017 data from the U.S. Census Bureau’s 2017 Nonemployer Statistics by Demographics (NES-D), 2018 Annual Business Survey (ABS), and 2017 American Community Survey (ACS). To calculate growth, we use 2012 data from the U.S. Census Bureau’s 2012 Survey of Business Owners (SBO). In order to isolate the differences between the U.S. Black, White, and Latino populations, we include only non-Latino Black- and non-Latino White-owned businesses in our “Black” and “White” measures for the first part of our analyses (Figures 1 through 3). However, due to data limitations, we are unable to remove Latino-owned employer businesses from the Black- and White-owned employer businesses for the remaining analyses of employer firms (Figures 4 through 7), meaning “Black” and “White” employer firms include both Latino and non-Latino Black- and White-owned employer businesses respectively.

ii “Business Ownership Index” is the ratio of the share of businesses owned by a given demographic group to their U.S. population share.
SCALE-UP GAP: BLACK- AND LATINO-OWNED FIRMS TEND TO BE SIGNIFICANTLY SMALLER THAN WHITE-OWNED FIRMS.

Black-owned firms tend to be smaller than both Latino- and White-owned firms in the U.S. Only 4.1% of Black-owned businesses are employer firms; i.e., they have at least one paid employee other than the owner, compared to 20.8% of White-owned businesses — a striking fivefold difference (Figure 2). A similar gap exists when looking at scaled businesses; i.e., firms earning over $1 million in revenue. Only 0.7% of all Black-owned businesses are scaled, compared to 5.6% of White-owned businesses. Fewer Black-owned businesses have employees and have scaled to $1 million in revenue relative to Latino-owned businesses, as well, although the differences are smaller.

Figure 2. Prevalence of Firms Hiring Employees and Generating $1 Million+ in Revenue Among U.S. Companies

Despite the large scale-up gap, the number of Black- and Latino-owned employer businesses grew at a higher rate than the U.S. average between 2012 and 2017.

As shown in Figure 3, between 2012 and 2017, the number of Black- and Latino-owned businesses grew by 12% and 18% respectively, outpacing the average growth rate in the number of White-owned firms (10%). This growth trend holds true for employer firms as well; the number of Black-owned employer firms grew at a rate higher than the U.S. average of 6%.

SOURCE: U.S. Census Bureau’s 2017 Nonemployer Statistics by Demographics and 2018 Annual Business Survey
Figure 3.
Growth Rate in the Number of Black- and Latino-owned Businesses (2012 to 2017)


POTENTIAL CHALLENGES TO GROWTH, PROFITABILITY, AND VIABILITY

Through the U.S. Census Bureau’s 2018 Annual Business Survey, business owners were asked a series of questions about how specific factors have affected their ability to make their business profitable or to keep it operational.2 Black business owners’ responses differed from those of other entrepreneurs in significant ways.

ACCESS TO CAPITAL

Black-owned employer businesses are three times more likely than White-owned employer firms to report that lack of access to capital had a negative impact on their profitability. As shown in Figure 4, 16% of Black-owned employer businesses report that access to financial capital negatively impacted their profitability, compared to 9% of Latino-owned employer businesses and only 5% of White-owned employer businesses.

Black-owned employer businesses are three times more likely than White-owned employer firms to report that lack of access to capital had a negative impact on their profitability.
Likewise, Black-owned employer businesses reported cost of financial capital as a key barrier to profitability at nearly twice the rate as White-owned employer businesses (9% versus 5%). Both Black- and Latino-owned employer businesses are also more likely than their White-owned counterparts to leverage personal sources of financing, such as personal savings and credit cards in order to start their businesses (Figure 5). A larger share of White-owned employer businesses (22%) also report receiving $100,000 or more in funding compared to Black- (15%) and Latino-owned employer businesses (16%).

Black-owned employer businesses reported cost of financial capital as a key barrier to profitability at nearly twice the rate as White-owned employer businesses (9% versus 5%).
Figure 5.
**Top Sources of Startup Acquisition Capital Used by Black-, Latino-, and White-owned Employer Firms**

<table>
<thead>
<tr>
<th>Source of Capital</th>
<th>Black-Owned</th>
<th>Latino-Owned</th>
<th>White-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal/Family Savings of Owner(s)</td>
<td>66%</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>Personal Credit Card(s) Carrying Balances</td>
<td>10%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Business Loan from a Bank or Financial Institution</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Personal/Family Savings of Owner(s)</td>
<td>12%</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Business Credit Card(s) Carrying Balances</td>
<td>17%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

**SOURCE:** U.S. Census Bureau's 2018 Annual Business Survey

Other studies have expanded on access to capital being a challenge for Black-owned firms. According to the Federal Reserve Bank’s 2019 Small Business Credit Survey, even “healthy and stable” Black-owned firms are less likely to leverage bank financing. Only 33% of healthy or stable Black employer businesses used funding from banks in the past 5 years, compared to 54% of healthy or stable White employer firms, suggesting that additional factors beyond Black-owned firms’ financial health impact their likelihood to access affordable mainstream financing. And, the gap in access to capital for minority-owned businesses is particularly visible in venture capital. A recent study by Crunchbase found that between 2015 and August 2020, only 2.4% of all U.S. venture capital raised went to Black and Latino founders.

**DEBT AVERTION**

Black entrepreneurs reported a strong preference against accruing additional debt relative to White and Latino business owners, when asked why they had not requested additional funding for their company. As shown in **Figure 6**, Black-owned employer businesses are nearly three times as likely to be debt averse as White-owned employer businesses. Ten percent of Black-owned employer businesses report choosing not to apply for additional funding in order to avoid accruing debt, compared to 6% of Latino- and 4% of White-owned employer businesses. Fear of being denied a loan and concern about the costs of financing also play a role in explaining why Black-owned businesses do not request additional funding. Numerous factors could be contributing to this debt aversion, including but not limited to: the large wealth disparity between Black and White Americans, the higher cost of lending afforded to Black individuals, and the disproportionately negative experiences with predatory lending practices, such as with subprime loans during the bursting of the housing price bubble. As debt aversion may play a role in the scale-up gap by limiting the resources available to Black-owned businesses, it is important to understand its drivers. We therefore invite more research on this topic.
Figure 6.
Top Reasons for Avoiding Additional Funding by Black-, Latino-, and White-Owned Employer Firms

<table>
<thead>
<tr>
<th>Reason</th>
<th>Black-Owned</th>
<th>Latino-Owned</th>
<th>White-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did Not Want to Accrue Debt</td>
<td>10%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Did Not Think Business Would Be Approved by Lender</td>
<td>8%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Decided the Financing Costs Would Be Too High</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

SOURCE: U.S. Census Bureau’s 2018 Annual Business Survey

CASH FLOW CHALLENGES

In 2017, 3.7% of Black-owned employer businesses reported closure, compared to 3.5% and 4.4% of Latino- and White-owned employer businesses respectively. As shown in Figure 7, inadequate cash flow or sales was the leading cause of business closure for both Black- and Latino-owned employer businesses — in fact, Black-owned employer businesses report closing due to inadequate cash flow or sales at nearly twice the rate of White-owned businesses.

Inadequate cash flow or sales was the leading cause of business closure for both Black- and Latino-owned employer businesses.
Figure 7. Leading Reasons for Business Closure

<table>
<thead>
<tr>
<th>Reason</th>
<th>Black-Owned</th>
<th>Latino-Owned</th>
<th>White-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate Cash Flow or Sales</td>
<td>36%</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>Owner(s) Sold the Business</td>
<td>21%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Owner(s) Retired</td>
<td>19%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Owner(s) Started Another Business</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Lack of Business Loans/Credit</td>
<td>7%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of Personal Loans/Credit</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Sold the Business</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau’s 2018 Annual Business Survey. The sample includes only the businesses that reported closure.

**IMPACT OF COVID-19 ON THE SCALE-UP GAP**

This study reviews the pre-pandemic scale-up gap experienced by Black-owned businesses from 2012 to 2017. The scale-up gap may have widened in recent years, as there is evidence that COVID-19 has not only disproportionately impacted Black entrepreneurs, but Black-owned businesses also have less access to COVID-19 relief aid. According to a study by the Federal Reserve Bank of New York, Black-owned businesses are more likely than White-owned businesses to be located in COVID-19 hotspots. Similarly, an August 2020 study estimated a 41% drop in the number of active Black business owners in the U.S. between February and April 2020 compared to a 32% and 17% decline for Latino and White business owners respectively.

In addition, many Black-owned businesses were less likely to benefit from government relief programs such as the Paycheck Protection Program (PPP). According to the U.S. Black Chambers (USBC), of the roughly 650,000 approved PPP loans of above $150,000, only 143 recipients were Black-owned firms and 90% of the members of the USBC reported that they received far less than the requested amount or no relief aid at all. Only 20% of eligible firms in U.S. counties with the densest Black-owned business activity were able to access PPP loans. The weaker financial positions before the pandemic has likely exacerbated the challenges facing Black-owned businesses.
CONCLUSION AND CALL FOR MORE RESEARCH

In this study, we explore several potential factors that could contribute to the scale-up gap experienced by Black-owned businesses. The striking differences between Black- and White-owned businesses’ capital access, debt aversion, and reasons for business closure warrant more research that can better test hypotheses for explaining the scale-up gap. We invite more studies to investigate how the aforementioned factors, as well as different barriers faced by Black entrepreneurs, impact the growth and survival of Black-owned businesses. Additionally, given the disparity in relief aid available to Black entrepreneurs and the disproportionate impact of the pandemic on Black communities, we also invite more research on the impact of COVID-19 on Black-owned business. A better understanding of the unique experiences and challenges of Black-owned businesses can inform policies and business owner choices to remediate existing barriers and develop solutions that would level the playing field for Black entrepreneurs.

REFERENCES

3. Ibid (2).
9. Ibid (2).
11. Ibid (4).
15. Ibid (13).