



How Women of Color Are Driving Entrepreneurship

By Farah Z. Ahmad June 10, 2014

Women of color are a principal force behind one of the most important components of America's current marketplace and our nation's future economy: entrepreneurship. Today, women of color are the majority owners of close to one-third of all women-owned firms in the nation.¹ Increased access to business capital—including microenterprises, venture-capital-funded firms,² and crowd funding³—has helped the number of women entrepreneurs grow substantially. But women of color face significant obstacles in starting their own businesses, leading to the question of why so many of them turn to entrepreneurship. The growth of women of color as business owners is part of a long-term trend, but the question of why this trend is occurring is often left unanswered. Looking at the alternative to entrepreneurship—the traditional workplace—sheds light on some of the reasons.

Many women of color who become entrepreneurs do so in order to pursue their innovative desires. But too often, structural obstacles in the traditional workforce limit women and push them to find alternatives such as entrepreneurship. Women, and women of color in particular, face unique challenges in traditional, corporate workplaces. In the long run, these challenges negatively affect women of color by limiting their ability to advance in the workplace. They also harm our nation's businesses, which forego the benefits—particularly innovation—that come with a diverse workplace.⁴ Some of the barriers that women of color face include limited access to mentors, exclusion from elite networks, and the gender wage gap.⁵ Women, on average, have historically made less than men. For example, an American Association of University Women study found that in 2012, African American women made 64 percent, Latina women made 53 percent, Asian women made 87 percent, and white women made 78 percent of their white male counterparts' wages.⁶

But despite, and arguably because of, the unique challenges women of color face in today's traditional workplace, their entrepreneurial impact is undeniable. Understanding women's roles and challenges in entrepreneurship—as well as the traditional workplace—is essential to ensure that women can succeed regardless of which career path they choose. Supporting female entrepreneurs will lift women of color out of poverty and help our economy thrive.

The growth of women of color entrepreneurs

There has been remarkable growth in the number of women of color business owners—and this figure is poised to increase as the women of color population grows. From 1997 to 2013, the number of female-owned firms in the United States grew by 59 percent—one-and-a-half times the national average. A closer look at the statistics shows that women of color are the catalyst behind this growth:⁷

- African American women-owned businesses grew by 258 percent.
- Latina women-owned businesses grew by 180 percent.
- Asian American women-owned businesses grew by 156 percent.
- Native American and Alaska Native women-owned businesses grew by 108 percent.
- Native Hawaiian and Pacific Islander women-owned businesses grew by 216 percent.⁸

There were 944,000 Latina women running their own businesses in 2013, 620,300 Asian American and Pacific Islander, or AAPI, female-owned businesses, and 1,119,400 African American female-owned businesses.⁹ Much of this growth has been concentrated in states and cities with large populations of women of color, such as California, Florida, New York, and Texas.¹⁰

Census projections predict that women of color will make up the majority of women by 2045, with Hispanic women leading this population growth.¹¹ In fact, while white women will make up 62 percent of the female population in 2015, their numbers are projected to fall to 47 percent of the female population in 2050, when 53 percent of all women will be women of color.¹² As our nation grows increasingly diverse, the contributions of women of color in the economy also stand to grow. As of 2013, more than 1 in 10 women-owned businesses were owned by Latinas across the country, and these 944,000 firms totaled \$65.5 billion in receipts.¹³ While Latina women will make up an estimated 16.7 percent of the female population in 2015, this share will increase to 25.7 percent by 2050—and it is likely that their entrepreneurial impact will grow too.¹⁴

Furthermore, African American women are both the fastest-growing segment of the women-owned-business population and the largest share of female business owners among women of color, at 13 percent.¹⁵ African American women are starting businesses at a rate six times the national average, and their 2.7 million firms are currently generating \$226.8 billion in annual revenue and employing almost 1.4 million people.¹⁶

The economic impacts of such extensive entrepreneurship among women yield myriad benefits to the United States through job creation, provision of goods and services, and stimulation of the economy through increased output. A 2009 Center for Women's Business Research study found that the 8 million U.S. businesses that are majority owned by women had an economic impact of \$3 trillion annually that translated into the creation and/or maintenance of more than 23 million jobs, a total that made up 16 percent of all U.S. jobs.¹⁷ Given the rates of growth among women of color businesses, these positive impacts to the nation's economy stand to grow even further.

Challenges of entrepreneurship

The growth of women of color-owned businesses over the past two decades is especially remarkable given that women of color often partially fund their enterprises with their own funds, despite the fact that they tend to have much less personal wealth than both their male counterparts and white women.¹⁸ This is particularly true if they are single parents.¹⁹ Single Latina women and African American women with children, for example, have zero median wealth.²⁰

However, their personal wealth is usually not enough to launch their businesses, and women of color entrepreneurs must seek other funding sources. A 2010 survey of members of the National Association of Women Business Owners showed that 63 percent of female respondents used credit cards to finance their businesses; 44 percent used private sources, such as personal savings, family, and friends; 37 percent used a business line of credit; 13 percent used a commercial or bank loan; 11 percent used a personal bank loan; 4 percent used a loan guaranteed by the Small Business Administration; and 2 percent used equity capital.²¹

Additionally, although business capital has become more accessible to entrepreneurs through targeted capital-access programs such as microenterprise and venture-capital funds,²² women of color face extra challenges in obtaining this capital that other groups do not. Almost half of all African American women business owners say that they have faced challenges when trying to obtain business financing.²³ Some research has found that women are more likely to be turned down for loans or receive loans with less favorable terms than their male counterparts.²⁴ Additionally, a review of studies on small businesses revealed that minority-owned businesses, when compared with similar white-owned businesses, face greater difficulties in accessing loans from financial institutions, including having their loan applications rejected more often, receiving smaller loans, and experiencing higher borrowing costs.²⁵ In 2011, only 11 percent of capital-investment funds went to women entrepreneurs—89 percent of capital investment went to male entrepreneurs—despite the fact that 20 percent of top entrepreneurs were women.²⁶

Additionally, women of color have varying levels of success once they do start their businesses. A 2012 National Women's Business Council analysis of 2007 data from the Census Bureau's Survey of Business Owners showed that average receipts for white women-owned firms were 9.5 percent higher than the national average for all women-owned businesses. Success rates among women of color vary; for example, average receipts for African American women-owned firms were 73.7 percent lower than the national average for all women-owned firms. Average receipts for Hispanic women-owned firms were 54 percent lower, American Indian and Alaska Native women-owned firms were 40 percent lower, and Native Hawaiian and Pacific Islander women-owned firms were 34 percent lower.²⁷ Asian American female-owned firms' average receipts were 9.3 percent higher than the national average for all women-owned firms, with an estimated total value of \$105 billion in 2013.²⁸ However, the Asian American community has

an incredible amount of diversity within it, indicating that some Asian American women entrepreneurs are doing better than others.²⁹ For example, among all firms owned by AAPIs, Chinese Americans owned the largest share—more than one-quarter—followed by Asian Indians at 20 percent and Vietnamese Americans at 14 percent.³⁰ Yet Asian Indian-owned firms grossed more receipts, on average—at \$152,000—than Chinese American-owned firms, which had an average of \$142,000. Both far outperformed Vietnamese American-owned firms, which had an average of \$29,000.³¹

One reason for the performance variation of female-owned businesses may be industry type.³² For example, professional, scientific, and technical services are top industries for white- and Asian American-owned firms. The top industry for African American women- and Latina women-owned firms is health care and social assistance, one of the lowest-grossing industries among women-owned firms in terms of average receipts—\$74,957—compared with professional, scientific, and technical services, which have average receipts totaling \$97,645.

While the challenges of entrepreneurship that women, and women of color in particular, face are difficult—especially when it comes to accessing capital to start and grow a firm and increase its performance—the appeal of entrepreneurship continues to attract these groups.

The appeal of entrepreneurship

Given these challenges, why are women of color becoming business owners at increasing rates? One explanation may be that women of color are not professionally progressing in the ways they desire to in today's traditional workplaces. Employment opportunities for women of color are wrought with challenges, including overrepresentation in low-wage job sectors with few benefits and higher unemployment rates than both white women and white men—challenges that were exacerbated by the Great Recession.³³ Women of color face large wage gaps when compared with white women and their male counterparts. In 2013, the median weekly earnings for women 25 years old and older was \$740, compared with the \$912 their male counterparts earned.³⁴ White women earned a median of \$722, Asian American women earned \$819, African American women earned \$606, and Latina women earned \$541, while non-Hispanic white males earned \$884.³⁵

Some of these gaps are reflective of the types of jobs women of color hold—or do not hold. Recent data show that women of color are underrepresented in professional and managerial positions. In 2013, only 25.6 percent of Latina women and 33.5 percent of African American women held management, professional, and related occupations, compared with 42.7 percent of white women and 48 percent of Asian American women, though a significant amount of variation exists within the Asian American community.³⁶

Furthermore, those women of color who do hold professional positions face unique barriers to workplace advancement.³⁷ These barriers pervade across many professional service industries. For example, in a study of women of color accountants, respondents cited a lack of similar role models, stereotypes, exclusion from networks, and lack of access to high-visibility assignments as barriers to advancement.³⁸ Similarly, a study of women of color in U.S. securities firms revealed that they often experience exclusion in the workplace—leading to difficulties forging connections with colleagues, managers, and mentors and a dearth of business development opportunities; men and white women generally do not experience this.³⁹ Additionally, a study of women of color in law firms across the country revealed that women of color often felt marginalized by negative racial or gender stereotyping, were the subject of low expectations from supervisors, and lacked access to important client or business engagements necessary for advancement.⁴⁰

Many professional women of color, regardless of industry, feel marginalized or excluded in their workplaces and find advancement within their workplaces especially challenging, particularly due to their lack of access to networks and the resulting lack of social capital. This is particularly evident when it comes to the powerhouse Fortune 500 companies. Today, women represent about half of the national labor force⁴¹ but only 5 percent of Fortune 500 CEOs—only two of which are women of color.⁴² At the board level, women of color held 3.2 percent of Fortune 500 board seats in 2013, a negligible increase from their 2012 or 2011 level.⁴³ In fact, more than two-thirds of Fortune 500 companies had absolutely no women of color on their boards for the sixth year in a row in 2013.⁴⁴

Whether it is challenges to workplace advancement, unequal pay, or a lack of social capital in a white, male-dominated business world, women of color have many reasons to become their own boss.⁴⁵ In fact, a Cox BLUE survey of women entrepreneurs found that 61 percent of women cited the opportunity to be their own boss as a reason to become an entrepreneur.⁴⁶ Other top reasons included having greater control of their own destinies, desiring to pursue their passions, making more money than they could while working for someone else, and spending more time with their families and children.

Supporting women entrepreneurs

Women of color are the driving force behind business growth, while people of color are powering population growth. Both of these facts make a clear case for breaking down barriers to entrepreneurship and supporting more equity in the workplace. Establishing more inclusive avenues for women of color to prosper as entrepreneurs will benefit not only women but also the economy as a whole. In fact, our economy cannot thrive if we do not work to bring more women of color out of poverty. The poverty rate for women of color was double that of white, non-Hispanic women in 2012: 28.6 percent of African American women and 27.9 percent of Hispanic women lived in poverty compared with 10.8 percent of white women. Asian American women had a poverty rate of 12.3 percent, but this aggregate number masks high poverty in select groups of Asian American

women.⁴⁷ The inevitable demographic changes that will take place over the next few decades will provide the United States with the opportunity to empower women of color who are working to break through barriers. By doing so, women of color will be afforded the opportunity to become a strong part of the U.S. economic fabric as both entrepreneurs and innovators. Empowering women of color to capitalize on their own talents will help maximize their contributions to the economy at large by providing services, products, and jobs—all while contributing to their own families' economic stability.

Closing racial and ethnic gaps will also increase economic growth, benefiting all Americans. In the recently published book *All-In Nation: An America that Works for All*, the Center for American Progress and PolicyLink present the gains that could be made through equity-driven growth. The authors calculated that if we had closed racial and ethnic gaps in income in 2011—by raising the wages of African Americans and Latinos to the levels of whites—average personal yearly income would have increased by 8.1 percent, and 13 million people would have been lifted out of poverty.⁴⁸ Additionally, tax revenue would have increased by \$192 billion, and U.S. gross domestic product would have risen by \$1.2 trillion.⁴⁹

The pressing need to reshape the conversation around equity in the United States, especially in the American business sector, will only continue to grow. The United States needs more innovation in the traditional workplace, including employment and training programs for women in careers where they are underrepresented, such as the science, technology, engineering, and mathematics—or STEM—fields.⁵⁰ But we also need to make sure we are supporting women who choose to be entrepreneurs. Entrepreneurial women of color are a critical part of our economy, and they have already demonstrated their ability to generate record amounts of revenue, employ people in their communities, and be a tool of economic mobility for women of color and their families.

While better access to funding streams, diverse industries, and networks are in short supply for women of color, the entrepreneurial spirit is not. Women, and women of color in particular, face a wide array of work-related obstacles, but their participation as employees, business owners, and consumers is fundamental to the success of not only their own families but also to the success of the U.S. economy.

Farah Z. Ahmad is a Policy Analyst for Progress 2050 at the Center for American Progress.

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