

Nearly half of new small businesses established by Black and Hispanic women shut down within a year.

*Recent years have seen increasing numbers of women of color enter the entrepreneurial sector, exceeding the growth in the number of businesses owned by men of color. In light of their new research, **Marie T. Mora** and **Alberto Dávila** argue that these trends are worrying, as nearly half of new businesses begun by black and Hispanic women fail within a year. They also find that those firms that were started a number of years previously by black and Hispanic women are at equal risk of failure as newer businesses.*



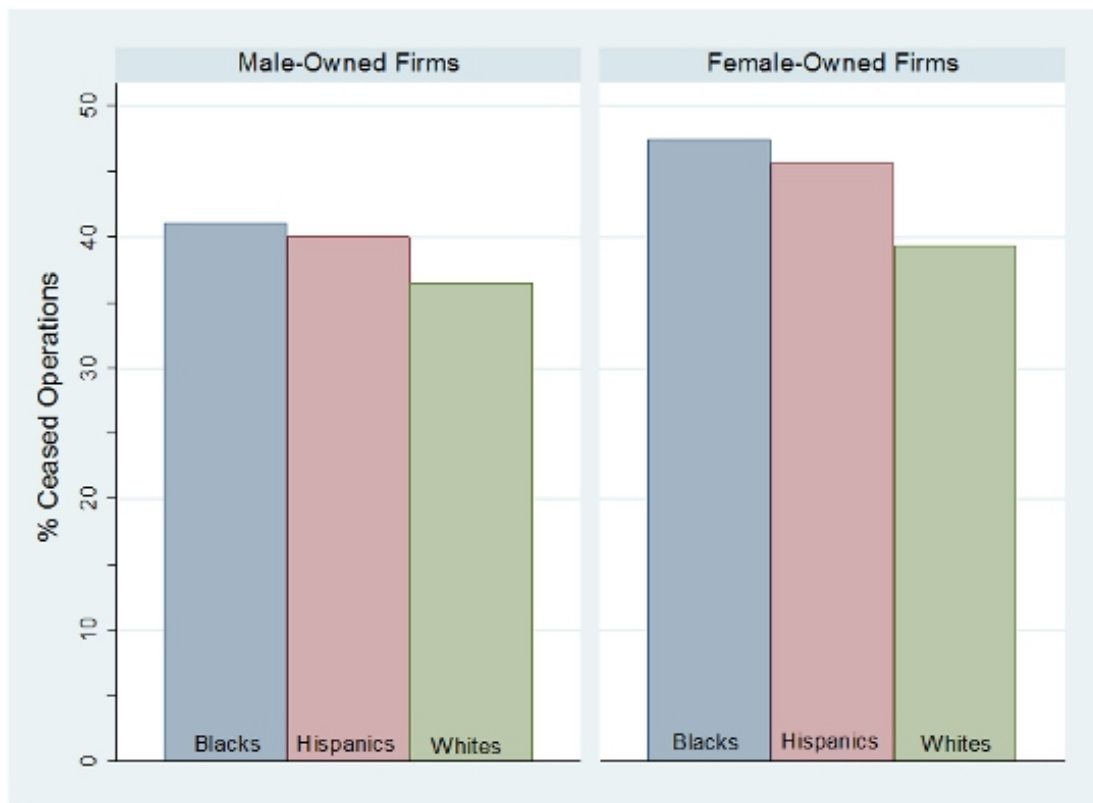
The U.S. has a variety of public programs designed to help female and minority entrepreneurs. That said, there have been several unsuccessful legislative attempts aimed at amending some of the current programs in recent years, including the Minority Business Development Improvements Act of 2010, which would provide minority-owned businesses with technical assistance, loan guarantees, and procurement assistance, and more recently the Women's Procurement Program Equalization Act of 2013, which would give preference in federal procurement towards small businesses owned by economically disadvantaged women.



These unsuccessful legislative improvement efforts have occurred when women of color have become ever more present in the entrepreneurial sector of the U.S. According to the most recent numbers from the U.S. Census Bureau's Survey of Business Owners, the number of businesses owned by Black women in 2007 exceeded the number owned by Black men (912,000 versus 857,000). This was driven by a disproportionate growth of the former group (67 percent) compared to the latter (50 percent) between 2002 and 2007. The number of Hispanic-female-owned businesses, too, grew more rapidly than the number of Hispanic-male-owned firms (46 percent versus 33 percent) during the same time, although the former group remained smaller than the latter in 2007 (788,000 versus 1.23 million). In comparison, the national growth rate in the number of businesses was 18 percent.

These trends, according to our recent research, raises policy concerns given the high business failure rates of these demographic groups. Indeed, as seen in Figure 1, nearly half of the new businesses that were established by Black and Hispanic women in 2007 had closed down by the end of the year (49 percent and 47 percent, respectively). Almost 42 percent of businesses formed by Black men in 2007 shut down as well. Those owned by non-Hispanic white women had similar shut-down rates (40 percent) as those owned by Hispanic men. The smallest percentage of new firms that ceased operations by the end of the year among the groups shown were those started by non-Hispanic white men (at 37 percent). The gaps between female- and male-owned firms were narrower among non-Hispanic whites.

Figure 1 – Shut-Down Rates of Newly Established Firms in 2007, by Gender and Race/Ethnicity

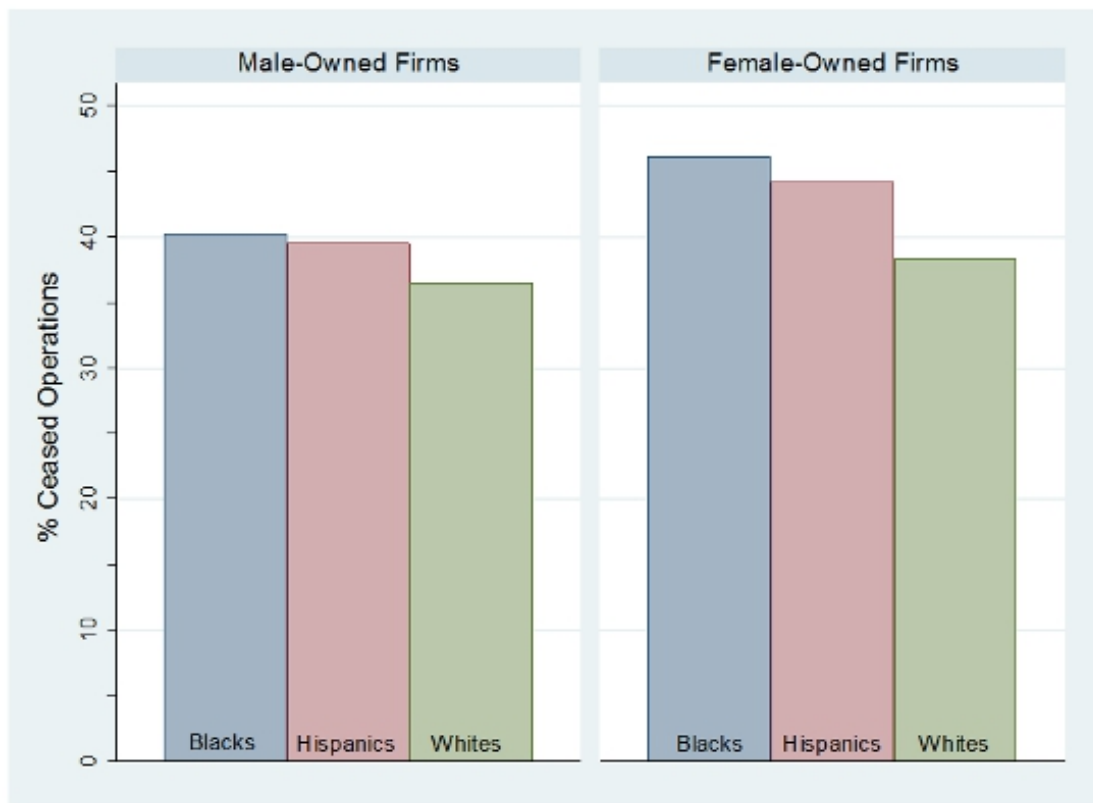


Source: Authors' estimates using the public-use microdata sample of the 2007 Survey of Business Owners. **Notes:** Newly established firms are those that opened in 2007. "Whites" refer to non-Hispanic whites. Firms ceasing operations that had initially opened for a one-time event or because the owner passed away are excluded.

Other characteristics of the owners (such as education) and firms (such as industry) admittedly need to be considered, as these traits relate to the likelihood that their business will survive. To illustrate, college graduates represented 27 percent of new businesses owned by Black women (and 21 percent of those owned by Hispanic women) among those that stayed open, but 17 percent (and 16 percent) of those that closed by the end of 2007.

Nevertheless, when accounting for differences in these characteristics between firms started by non-Hispanic White men versus the other groups, we find a similar pattern to what we have already observed. Figure 2 shows that the gaps in the business shut-down rates across these demographic groups only narrow slightly. Minority-owned, particularly minority female-owned, new firms had a higher risk of closing down within one year than those owned by non-Hispanic White men.

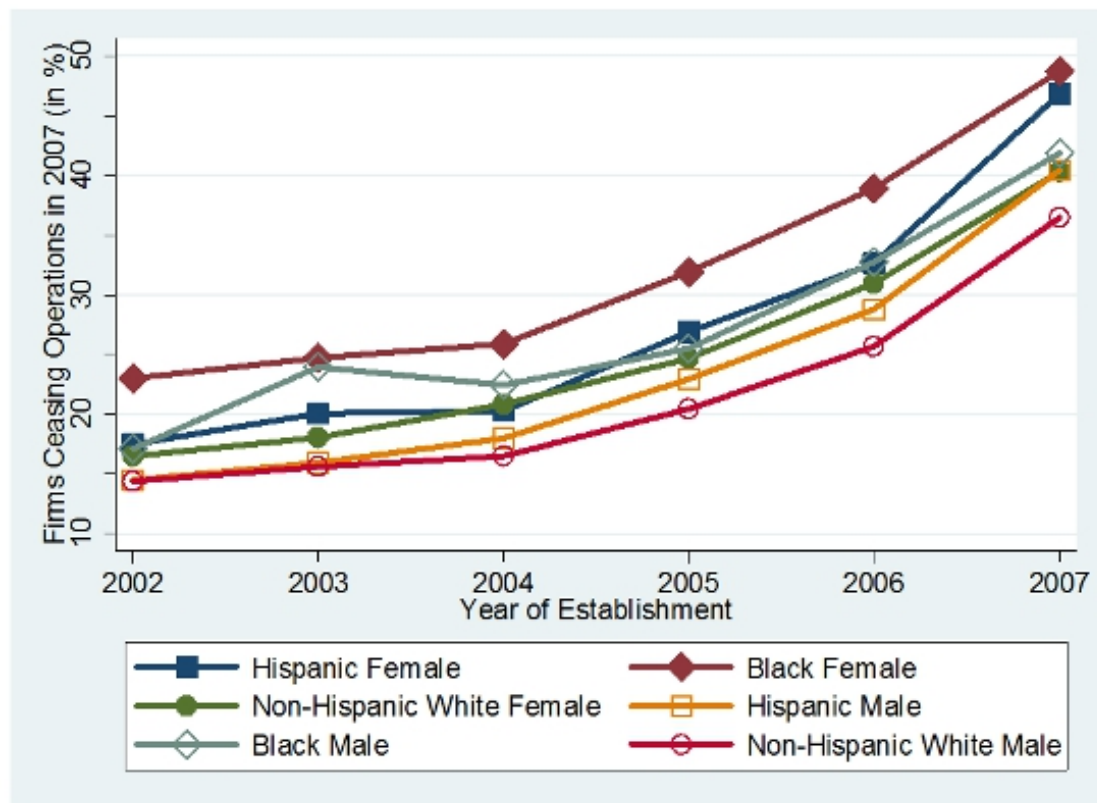
Figure 2 – Shut-Down Rates of Newly Established Firms, by Gender and Race/Ethnicity, Accounting for Differences in Other Owner- and Firm-Level Characteristics Relative to Firms Owned by Non-Hispanic White Men



Source: Authors' estimates using the public-use microdata sample of the 2007 Survey of Business Owners. **Notes:** Newly established firms are those that opened in 2007. "Whites" refer to non-Hispanic whites. The characteristics considered include owner characteristics (birthplace, education, and age) and firm-level characteristics (natural logarithm of sales and industry). Firms ceasing operations that had initially opened for a one-time event or because the owner passed away are excluded.

The higher shut-down rates of firms owned by Black women in 2007 also occurred among those established earlier in the decade, as seen in Figure 3. Those started by Hispanic women earlier in the decade had similar rates of ceasing operations that year as those owned by Black men. With few exceptions, the older firms were less likely to cease operations regardless of when they were established.

Figure 3 – Percentage of Firms that Ceased Operations in 2007, by Race/Ethnicity and Gender of the Owners and Year of Establishment



Source: Authors' estimates using the public-use microdata sample of the 2007 Survey of Business Owners. **Notes:** The sample includes businesses that were established in 2000 or later. Firms labeled as starting in 2002 were established between 2000 and 2002. Firms ceasing operations that had initially opened for a one-time event or because the owner passed away are excluded.

Faced with fewer labor market opportunities, Black and Hispanic women might be starting businesses with less preparation than men. Some scholars have noted that labor-market discrimination “spills over” to the business sector. Such types of discrimination might be further compounded for women of color, who might experience discrimination because of gender as well as race/ethnicity. Finally, given the growing numbers of Black and Hispanic female entrepreneurs, the managerial quality among the newest firm owners might also be falling, increasing the probability of failure for the newest of business owners.

This article is based on the paper ‘[Gender and Business Outcomes of Black and Hispanic New Entrepreneurs in the United States](#)’ in the *American Economic Review: Papers and Proceedings*

Featured image credit: [Bonnie Natko](#) (Creative Commons BY NC ND)

[Please read our comments policy before commenting.](#)

Note: This article gives the views of the authors, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: <http://bit.ly/1qmX3oH>

About the authors

Marie T. Mora – *University of Texas-Pan American*

Marie T. Mora is Professor of Economics and Vice Provost Fellow for Faculty Affairs at The University of Texas – Pan American. She is also a research fellow with IZA (Bonn). Her research focuses on Hispanic labor-market and other socioeconomic outcomes in the U.S. In addition to publishing journal articles on these themes, she has a co-authored book (with Alberto Dávila), *Hispanic Entrepreneurs in the 2000s: An Economic Profile and Policy Implications* (Stanford University Press, 2013), and two co-edited volumes (*The Economic Status of the Hispanic Population*, Information Age Publishing, 2013), and *Labor Market Issues along the U.S.-Mexico Border*, University of Arizona Press, 2009).



Alberto Dávila – *University of Texas-Pan American*

Alberto Dávila is Professor of Economics, V.F. “Doc” and Gertrude M. Neuhaus Chair for Entrepreneurship, and the Chair of the Department of Economics and Finance at the University of Texas – Pan American. His research focuses on Hispanic labor-market outcomes, entrepreneurship, and the economics of the U.S.-Mexico border. In addition to publishing journal articles on these themes, he has a co-authored book (with Marie T. Mora), *Hispanic Entrepreneurs in the 2000s: An Economic Profile and Policy Implications* (Stanford University Press, 2013), and two co-edited volumes (*The Economic Status of the Hispanic Population*, Information Age Publishing, 2013), and *Labor Market Issues along the U.S.-Mexico Border*, University of Arizona Press, 2009).



- CC BY-NC-ND 3.0 2014 LSE USAPP