DISRUPT THIS!

Why Minority Entrepreneurship is Stuck and What Needs to Happen Next

FOUNDERS OF COLOR
Founders of Color (FOC) is a national organization dedicated to minority small business growth. We understand the power of entrepreneurship to achieve economic equality and view entrepreneurs of color as untapped resources that, when unleashed, will grow the nation’s economy, strengthen its social fabric, and bring renewed vitality to the American Dream.

With 3,700 members in 42 states, Founders of Color is building a movement for change.

Since 2017, we’ve delivered programming that connects our members to the resources and information they need to scale, all while building a community where they feel challenged, supported, and understood.

To learn more about FOC, visit www.foundersofcolor.org.
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That’s the amount of time it will take for black family wealth to equal that of white family wealth. It’s just 17 years shy of the total amount of time that blacks in this country lived under slavery.

For Latinos, the number is less shocking, but equally dire, at 84 years (source).

In this country, access to wealth translates into access to quality. Quality education. Quality health-care. Quality transportation. Quality jobs. And as long as the wealth gap persists, black and brown people will continue to have second-class status in this country.
MANY SOLUTIONS HAVE BEEN OFFERED TO CLOSE THE WEALTH GAP, BUT THIS IS WHAT WE KNOW.

There are two ways that multi-generational wealth is created: inheritance and entrepreneurship (source). Given the nation’s history of slavery and racism, people of color have systemically been limited in their ability to accumulate wealth, much less pass it down, making inheritance largely unavailable. If wealth inequity is to be remediated, entrepreneurship is the only true path.
Despite historic educational gains, minorities continue to lag behind in the workplace. Institutionalized racism, unconscious bias, and workplace isolation present real challenges for people of color looking to advance (source). As a result, many feel trapped in unsatisfying and unrewarding jobs and instead decide to try their hand at entrepreneurship.

While the numbers are nowhere close to being proportionate, black and Latino business starts are up considerably. Between 1996 and 2015, the minority share of business starts increased from 23% to 39% (source). Seven out of 10 of new, women-owned businesses are launched by women of color, with black women comprising the fastest growing group of entrepreneurs in the U.S. (source).
THE CHALLENGE

THIS WOULD BE ENCOURAGING IF BLACK AND BROWN ENTREPRENEURS WERE EXPERIENCING THE SAME OUTCOMES AS WHITE BUSINESS OWNERS, BUT THEY ARE NOT.

On average, white-led firms generate 10 times the revenue of black-led firms and eight times the revenue of Latino firms (source). While people of color make up 39% of the U.S. population, they receive access to less than 5% of Fortune 100 contracts and less than 2% of government contracts (source).
Black and Latino entrepreneurs suffer from lower levels of education. Many are first-generation entrepreneurs and lack prior experience working in a family business. They likewise lack managerial experience, making it difficult to climb the corporate ladder (source).

Perhaps the greatest determinant is the lack of access to capital. Blacks and Latinos experience less favorable business loan application outcomes, even when controlling for relevant factors (source). Entrepreneurs receive less than 1% of venture capital, and given that whites enter the world with 10 times the inherited wealth of blacks and about 8 times the inherited wealth of Latinos, very few are able to sufficiently bootstrap a business or access a “friends and family” investment round (source).

Over the years, numerous strategies have been deployed to help minority entrepreneurs achieve greater parity.
The supplier diversity movement emerged out of the Nixon administration and was intended to help capable minority-owned firms circumvent barriers and roadblocks that had previously inhibited their ability to compete for corporate and government contracts (source). Since then, supplier diversity programs have been established across the country by governments and corporations seeking to adhere to the federal mandate and portray general openness to diverse suppliers.

These programs have institutionalized diversity thinking and goal-setting within organizations in powerful ways. Approximately 97% of Fortune 500 companies have supplier diversity programs, as do most states and large municipal governments (source). Initiatives like the Billion Dollar Roundtable, which comprises companies committed to spending $1 billion annually with diverse firms, have raised the stakes and placed soft pressure on corporations to “put their money where their mouths are” (source). Most importantly, the supplier diversity era has enabled thousands of minority-owned firms to access business opportunities that would otherwise not be available.

That said, the supplier diversity model is broken.
While companies like Wal-Mart, IBM and Toyota (source) maintain robust supplier diversity programs, most could be described as weak.

In a recent report surveying supplier diversity professionals, less than 1/3 (32%) identified their program as being very effective (source). Five percent found their program to be very ineffective, and the remaining were lukewarm. This perceived lack of effectiveness is likely tied to those programs being chronically under-resourced. Most (54%) supplier diversity programs had one or fewer full-time staff assigned (source). Less than 10% have five or more.

When polled, many lament their lack of access to quality, diverse suppliers. This is likely due to a heavy reliance on supplier development councils to source qualified vendors (source). While there are more than 6 million diverse firms (1 million with employees), approximately 13,000 maintain their minority certification at a given time. This constitutes less than 1% of both total and staffed minority firms.

Diverse firms are relatively voiceless in the current model (supplier development councils are corporate led) and generally lack access to the sort of quality business development supports that would ready them for game-changing B2B (business-to-business) or B2G (business-to-government) opportunities. Little vetting happens through the certification process, which leaves the task of establishing capabilities to often under-resourced supplier diversity professionals, who must sift through the certified firms to identify the strongest candidates for procurement opportunities.
With more than 300 independent and self-sustaining African-American and Hispanic chambers across the country, these organizations have been described as being among the “most common support organizations for minority entrepreneurs” (source). They provide a range of services and supports, including trainings for small business planning and contracting, networking, and obtaining access to capital. They are especially critical in helping ensure minority-owned small businesses achieve greater integration into local and regional economies.

We know very little about the effectiveness of local chambers—minority-specific or otherwise. However, the fact that they are independently operated and localized suggests that they vary in quality and impact (source). Because of their relatively small size and budgets, local chambers are limited in their ability to provide comprehensive programming for their members. Moreover, minority chambers must contend with the prevailing challenge facing all chambers of commerce—decreasing relevance in an increasingly technological age (source).
FEDERAL INITIATIVES

Government support of minority small business primarily occurs through programs targeting Small Disadvantaged Businesses (SDBs)—firms majority owned by socially and economically disadvantaged individuals (source). Over the years, the government has rolled out numerous capital, development, and procurement programs with special allowances for this group. Perhaps the most robust is the Minority Small Business and Capital Ownership Development Program, commonly known as the 8(a) Program. The 8(a) Program provides participating small businesses with training, technical assistance, and contracting opportunities in the form of set-aside and sole-source awards. In 2017 alone, participating firms received $27.1 billion in federal contracts (source).

The Minority Business Development Agency (MBDA), out of the Department of Commerce, is tasked with promoting the growth of minority-owned firms through public and private sector programs, policy, and research. In the last two years, MBDA helped facilitate nearly $12 billion in contracts and financing for minority-led enterprises (source).

While these programs are having considerable impact, they tend to target more mature firms. For instance, MBDA generally works with small businesses that generate $1 million or more in annual revenue (source). And while the 8(a) Program doesn’t have a revenue threshold, the certification process involves a rigorous due diligence process that most minority small businesses are not able to clear. In 2016, just 911 small businesses were certified through the 8(a) Program (source).
The emergence of the startup economy has produced new support models for small businesses—particularly tech companies. In recent years, numerous organizations and initiatives have sprung forward, intent on ensuring black tech founders in particular and small business owners in general don’t get left behind. While these organizations are doing good work and delivering much-needed programming and support, they almost universally suffer from a lack of resources, which constrains their capacity, impacts the quality and consistency of their programming, and limits their ability to achieve true economies of scale.
The power of entrepreneurship to close the wealth gap is real, and the implications are not just individual but communal and societal. Minority entrepreneurs are more likely to hire other minorities and more likely to locate their offices in communities of color (source). Further, studies suggest that if minority firms were to grow and hire at the rate of white firms, it would add 9 million more jobs to the economy and boost the national income by $3 billion (source).

However, there is little evidence to suggest that the current compilation of resources and supports is adequate when it comes to preparing people of color to access that promise. Without major recalibration and course correction, this surge in minority entrepreneurship could result in the further exacerbation of the wealth gap, not the remediation of it.
This wouldn’t be the first time the promise of opportunity resulted in the loss of actual wealth for people of color in this country. In the case of African-Americans who fled the Jim Crow South in pursuit of a life free of racial terror and oppression, countless acres of land was lost. While there were other factors at play, including systemic discrimination in lending, obscure legal loopholes, and forced purchases, the lure of Northern factories resulted in the selling of millions of acres of land (source). At its height, in the early 20th century, black land ownership totaled 15 million acres. By the close of the 20th century, blacks own just over 2 million acres of arable land (source).

Just like their ancestors who sought the American dream in Northern factories, educated and highly professionalized blacks are exiting corporate America in droves to pursue economic freedom through entrepreneurship—not realizing that the average black-female-led business generates just $13,971 and the average black-male-led business, $25,612 (source). According to one study, 30% of entrepreneurs don’t even pay themselves, and according to another study, 41% of non-employer firms operate at a loss (source). These figures are undeniably more severe for people of color. Failure to reckon with this reality could result in a generation of black and brown entrepreneurs who end up underpaid, over-leveraged, and even further behind economically than their parents before them.
If we are to leverage the power of entrepreneurship to close the racial wealth gap in this country, it will require an evolved ecosystem that is coordinated and supportive—one that engages in meaningful collaboration, delivers comprehensive, high-quality programming, and forges a strong and resilient sense of community among entrepreneurs of color. It will require bold ideas, fresh energy, ambitious goals, and true accountability. It will require a level of intentionality and collective action not seen since the days of the Civil Rights Movement. And it will require national-level leadership from an entity whose sole focus it is to advance the cause of minority entrepreneurship in a way that meaningfully moves the needle within a generation.

Closing the racial wealth gap is more than possible, but what has brought us here won’t take us there. It’s time to take a bold step in a new direction.
At Founders of Color, we aspire to be a national intermediary committed to helping entrepreneurs of color compete and succeed in a global marketplace. By coordinating resources, galvanizing support, advancing thought leadership, movement building, and all-around connecting the dots, Founders of Color will bring about increased economic inclusion and prosperity for both people and communities of color.
GROW THE MOVEMENT. Our ability to make strides on this issue is largely determined by our access to minority entrepreneurs and our ability to engage them in meaningful and value-based ways. At Founders of Color, we’ve had considerable success building a national community of over 3,500 subscribers across 40+ states. In Q1 2019, we increased subscribers by 27% and in March alone doubled our Instagram following using a successful content strategy.
ASSESS THE “LAY OF THE LAND.”
Too often strategies are devised without a clear sense of the landscape and “who’s doing what.” This results in the duplication of efforts, the mal-apportionment of resources, and huge program and service delivery gaps. By assessing the lay of the land, we as an ecosystem are better able to move forward with intentionality and focus, offering a comprehensive strategy for advancing minority entrepreneurship. FOC provided this leadership in the past through the creation of our ecosystem map, designed to identify actors operating at the intersection of entrepreneurship and D&I (diversity and inclusion).
BUILD THE KNOWLEDGE BASE.

While we have access to basic demographic data, there are considerable knowledge gaps that inhibit our ability to be effective and impactful. Beyond high-level statistics, there is a dearth of research on how minority entrepreneurs fair in the marketplace and what distinguishes those who are successful from those who struggle. Additionally, while there is a fair amount of programming being directed to people of color, there’s no thorough understanding of program availability or quality.
CONVENE THE CHANGE MAKERS.
While there is great work being done on behalf of minority entrepreneurs, most efforts are isolated. There is little collaboration or coordination of activities, resulting in an ecosystem that feels disconnected and very difficult for entrepreneurs of color to navigate. Over the last two years, we’ve built a strong network of national and local providers across small business and startup communities, which positions us well as a national convener. By creating a space for service providers to come together, share best practices, identify synergies in their work, co-strategize, and plan, we’ll be able to extend our reach and achieve true collective impact.
ADVANCE THE CONVERSATION. Leveraging entrepreneurship to close the racial wealth gap will require sustained vision, leadership, and effort. This includes advancing the conversation on minority entrepreneurship in ways that go beyond the surface to explore and unpack the dynamic and multi-faceted nature of an issue that will continue to surge in relevance as the nation becomes increasingly diverse.
IN FIVE YEARS, WHAT IF WE WERE ABLE TO...

- Build a community of 250,000 entrepreneurs of color across the country?
- Standardize small business learning so that entrepreneurs of color were able to receive quality training according to their size, scale, and goals?
- Ensure that entrepreneurs of color in Des Moines received access to the same quality programming and support as entrepreneurs of color in Silicon Valley?

- Build a continuum of programming that synced efforts and activities across the ecosystem?
- Build a pipeline of investable businesses to be readily matched with a network of culturally competent investors?
- Develop a system that quadruples the pool of capable businesses ready to partner with Fortune 500 companies?
- Double the number of qualified 8(a) applicants year over year?

WOULD THAT BE A VISION WORTH SUPPORTING?
At Founders of Color, we know that achieving economic prosperity through entrepreneurship is possible, and we’re ready to lead. But we can’t do it alone. Achieving real and measurable impact will require the engagement of a range of stakeholders—both new and existing—to achieve sustained momentum.

In order to build the capacity necessary to carry forward our bold agenda, Founders of Color is engaging a capital campaign to support the next five years of operations. The campaign will enable us to build the institutional infrastructure necessary to carry our work forward in a sustainable way.
To learn more about us and our work, visit www.foundersofcolor.org.

To learn how you can partner with us to close the racial wealth gap and make real progress on alleviating economic inequality, contact Kelly Burton at kburton@foundersofcolor.com.
END NOTES

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