The Wisconsin Economy

BUSINESS

Business Owners of Color in Wisconsin: Strategies to Strengthen Businesses and the Economy

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EXECUTIVE SUMMARY

Businesses owned by people of color are a critical component of the economy. In addition to providing a specific product or service, they are a source of income for entrepreneurs and their employees and aid in their wealth accumulation. They can enhance the quality of life and contribute to broader economic development in their communities.

Given lower levels of wealth and resources within America's communities of color, entrepreneurship is all the more important as a path for income generation and upward mobility. Yet, businesses led by people of color tend to face large disparities in terms of representation and performance. To the extent that business owners of color are underrepresented because of undue challenges, it comes at a cost to the individual entrepreneur and to the overall economy.

Businesses owned by people of color face challenges due to access to capital, sectoral distribution, physical location, size, and maturity, among other factors. Business owners of color can be supported by building four types of capital – financial, human, social, and cultural. Research suggests that these forms of capital can be grown through strategies that address: funding and financing, supply chain diversification, as well as education and mentorship.

In our analysis of the challenges to entrepreneurship in communities of color and potential remedies, we recognize that developing supportive business environments for entrepreneurs of color is only one piece to building a more equitable society. Outside of these business-specific proposals, we also encourage readers to consider other policies which work to bridge wealth and resource gaps faced by communities of color.

STRATEGIES TO SUPPORT BUSINESS OWNERS OF COLOR

In this policy brief we discuss the following strategies to support business owners of color.

FUNDING AND FINANCING

FINANCING STRATEGIES

DIRECT INVESTMENT STRATEGIES

SUPPLY CHAIN DIVERSIFICATION

EDUCATION AND MENTORSHIP

INTRODUCTION

Entrepreneurship is an important tool for economic development. Owning a business allows individuals to build wealth for themselves and their communities while also creating jobs and meeting the demand for a good or service. Small businesses improve the health of the economy by offering innovation and value for customers as well as by generating income and wealth for themselves, their employees, and their communities. Given the importance of small businesses, it is critical that the opportunity to build a business is accessible to everyone, particularly in communities that are economically disadvantaged.

Relative to the white population, communities of color face greater economic challenges. Decades of structural inequities – hiring discrimination, wage suppression, labor market segregation, and more – have created persistent economic disparities. Entrepreneurship can be a path to closing wealth and opportunity gaps in communities of color. While providing entrepreneurs with a source of income, business ownership can support broader community development by offering employment opportunities, introducing a beneficial product or service within a community, and enhancing the professional network and mentorship available to other community members. These benefits speak to the importance of creating supportive ecosystems for businesses owned and operated by people of color (Bates, Farhat, & Casey, 2022; Bonds, 2007; De Zeeuw, 2019; Federal Reserve Bank, 2019; Federal Reserve Bank, 2021; Liu & Parilla, 2020).

Despite the challenges, entrepreneurship among people of color has been growing. Between 1996 and 2019, the share of new entrepreneurs of color in the United States increased by 19.1 percentage points – growing from 22.9% to 42% (Kauffman Foundation, 2020). The largest growth was among Latino entrepreneurs as their share grew from 10% to 22.8%, next was Asian

A NOTE ON TERMINOLOGY

We use the terms "people of color (POC)," "communities of color," "entrepreneurs of color," and "businesses owners of color" to refer to groups who have identified as nonwhite. When referring to a specific group, we use specified terminology (e.g., Black business owners). When citing sources, we try to adhere to the terminology as used by the original source. This is especially relevant in our use of Census data which uses the term "minority" that identifies racial and ethnic groups which are classified as any race or ethnicity other than non-Hispanic white. The following terms included in this definition are: Hispanic or Latino of any race, Black or African American, American Indian and Alaska Native, Asian, and Native Hawaiian and Other Pacific Islander (U.S. Census Bureau, 2018). We acknowledge that these terms are not entirely agreed upon and consistently evolving. Our intention is to employ terminology that causes the least harm to communities of color as possible. Our choice of language is informed by the American Psychological Association guidelines and The Associated Press Stylebook.

entrepreneurs as their share went from 3.4% to 7.0%, and then, Black entrepreneurs whose share went from 8.4% to 10.1%. Along the same lines, the share of immigrant entrepreneurs doubled during that same time period so roughly 1 in 4 new entrepreneurs are immigrants (Kauffman Foundation, 2020).

This recent growth of firms owned by people of color helped the economy recover after the Great Recession, which is valuable in the context of the recent economic turmoil caused by the COVID-19 pandemic. Although these businesses were less likely to survive the Great Recession, businesses owned by women and people of color drove business growth in the recovery period. Between 2007 and 2012, they added 1.8 million jobs while firms owned by white men lost 800,000 jobs, and firms equally owned by white men and women lost 1.6 million jobs (Liu & Parilla, 2020). Despite this national growth, business owners of color continue to face many challenges that limit their number and stunt their growth. The economic role of these firms makes it important to consider how obstacles to start-up and growth can be reduced and eliminated to make the whole economy stronger. Indeed, reaching parity in the rate of businesses ownership would mean additional businesses, jobs, and income (see callout box, "Reaching Parity in Wisconsin").

In this policy brief and the corresponding report, we will examine the current situation of businesses owned by people of color in Wisconsin and the potential next steps to take to support these businesses. To orient our potential solutions, we use a framework focused on building different types of capital significant to entrepreneurship: financial, human, social, and cultural capital. We outline this framework in greater detail in the following section before introducing our proposed strategy options.

REACHING PARITY IN WISCONSIN

We estimate that if entrepreneurs of color owned businesses at the same rate as white entrepreneurs, there would be....

Additional nonemployer firms	29,706
Additional employer firms	15,942
Additional jobs provided by employer firms	151,892
Additional income provided by employer firms (payroll receipts)	$4,487,418,000

* *We find these estimates by calculating the ratio of non-Hispanic white-owned employer businesses to the non-Hispanic white population of Wisconsin using 2019 data. Using this ratio and the state's minority population, we then calculate how many additional POC-led businesses would need to exist in Wisconsin to achieve parity in the business-to-population ratio with non-Hispanic white population. We then use this parity estimate to calculate the number of additional employment opportunities and payroll dollars that would be made available to the state's economy by taking our estimate for the additional number of employers and multiplying it by the average number of employees and payroll dollars for Wisconsin's POC-owned businesses. While we understand that these are rough calculations, we believe that these estimates give some insight into what the state's economy would look like if businesses owned by people of color were equally represented to non-Hispanic white-owned businesses (U.S. Census Bureau, 2019a; U.S. Census Bureau, 2019b).

A FRAMEWORK FOR SUPPORTING BUSINESS OWNERS OF COLOR

Our proposed strategies to support business owners of color fall into three categories:

- Funding and financing
- Supply chain diversification
- Education and mentorship

Even with their recent growth, businesses led by people of color are widely underrepresented in the business market in Wisconsin and nationally (McDermott, Conroy, & Kures, 2023). Firms owned by people of color are also typically less profitable, have lower rates of revenue growth, employ fewer workers, and experience more financial challenges relative to white-owned firms (De Zeeuw, 2019; Federal Reserve Bank, 2019; Federal Reserve Bank, 2021; Liu & Parilla, 2020; McDermott, Conroy, & Kures, 2023). These gaps in business ownership mean that there are fewer opportunities for diverse groups to build wealth for themselves, their potential employees, and their communities. The gap in business ownership and performance has been attributed to historical discrimination as well as exclusion from advantageous economic processes that have led to disparities in personal wealth, access to capital, and educational attainment—all of which are important for entrepreneurship (Bates, Farhat, & Casey, 2022; Klein, 2017; Liu & Parilla, 2020). It is important to recognize that although we consider challenges and strategy responses for business owners of color generally, each demographic group has a distinct experience.

Some of the major difficulties encountered by business owners of color include access to capital, sectoral concentration, location, as well as limitations due to the size and maturity of the business. Many of the challenges entrepreneurs of color face stem from social and economic problems that are deeply rooted in the American social fabric, such as the racial wealth gap, segregation along racial and ethnic lines, disinvestment and neglect of communities of color, and discrimination. Though we acknowledge these larger overarching issues, the strategies suggested below are inadequate for addressing them. Rather, we hope to have identified actionable strategies that can be implemented at the state, community, group, or individual level. With the overall goal of strengthening entrepreneurship and business ownership in communities of color, these recommendations focus on improving access to financial capital, resources, and other services beneficial for entrepreneurs of color. Our recommendations describe opportunities for banks and other lenders, government officials, large corporations, and other entities and institutions to support businesses owned by people of color.

We separate our direct policy solutions into three different categories: funding and financing; supply chain diversification; and education and mentorship. The strategy options outlined in this report are informed by the Community Capitals Framework developed by Cornelia and Jan Flora. This framework organizes community assets into seven "capitals", namely financial capital, human capital, social capital, cultural capital, built capital, natural capital, and political capital (Emery & Flora, 2006). To approach the task of supporting entrepreneurs or any other community development initiative, one should assess the constraints and assets with regard to each type of capital. It is important to emphasize that each community differs in terms of location, demographics, culture, and history, among other factors which determine particular needs of businesses in each community (Liu, 2012). Given the distinct fabric of every community, it is crucial to tailor strategies at the local level by understanding which areas need the most assistance and how to leverage existing resources in their community. Although this policy brief proposes recommendations to broadly improve the business opportunities for entrepreneurs of color, the practical implementation of these solutions needs to be accompanied by local insight from community members.

We focus on four types of capital that offer strong pathways for communities to engage with entrepreneurs of color – financial, human, social, and cultural. Before detailing the ways to build and utilize each type of capital in communities, we introduce each type of capital which we focus on throughout the following sections:

Financial Capital – Primarily covered in Sections 1 and 2, financial capital provides entrepreneurs with monetary means to build their businesses. Financial capital can come in the form of personal savings, retained business earnings, loans from banks or other lenders, grants, investments, and more. Entrepreneurs use financial capital to cover the costs of providing their specific product or service, which can include raw materials, rent of business space, insurance, licenses and permits, employee salaries, advertising, and more. Financial capital is imperative to establishing and sustaining a business, yet communities of color face greater challenges accessing these monetary means; therefore, we outline a myriad of several measures that can be implemented by different parties to build financial capital in communities of color.

Human Capital – Built through training, education, mentorship, and experience, human capital consists of the knowledge, skills, and expertise which are significant to entrepreneurship. We focus on human capital mainly in Section 3 and outline ways in which organizations and programs can provide resources and opportunities that foster the cultivation of human capital in communities of color.

Social Capital – Social capital is the benefit that occurs from connections with other people and the networks that form as a result. In the context of entrepreneurship, social capital facilitates the sharing of valuable wisdom and guidance on business ownership which helps emerging entrepreneurs as they build their venture. Social capital comes in the form of professional networks which can connect entrepreneurs with potential mentors, clients, business partners, or professional areas to expand their business. Mainly covered in Sections 2 and 3, the development of social capital is especially relevant in communities of color given the exclusion people of color have faced from the majority white business environment.

Cultural Capital – Rooted in a specific community, society, or social group, cultural capital consists of the wisdom, skills, and values held within a specific culture. Similar to social capital, cultural capital provides entrepreneurs with knowledge and capabilities specific to their community. This is particularly relevant when considering how one's business will interact with the community in which it is located since entrepreneurs should be knowledgeable and attuned to the community's needs and preferences. In developing support strategies of any kind, culturally aligned programs are likely to be most successful.

Since all forms of capital are interrelated, it is important to maintain a holistic approach when building capital in communities of color as an increase in one form of capital will help businesses access other resources, and vice versa. An intertwined network of programs and strategies will help to prevent one individual policy from failing, making these policy recommendations stronger when implemented together. And, while direct interventions are vital in supporting entrepreneurs of color, policy focused on broadly decreasing wealth inequality along racial and ethnic lines would also indirectly help businesses led by people of color, increasing the capital and resources available to owners while also increasing the wealth of businesses' customers.

SECTION 1: FINANCING

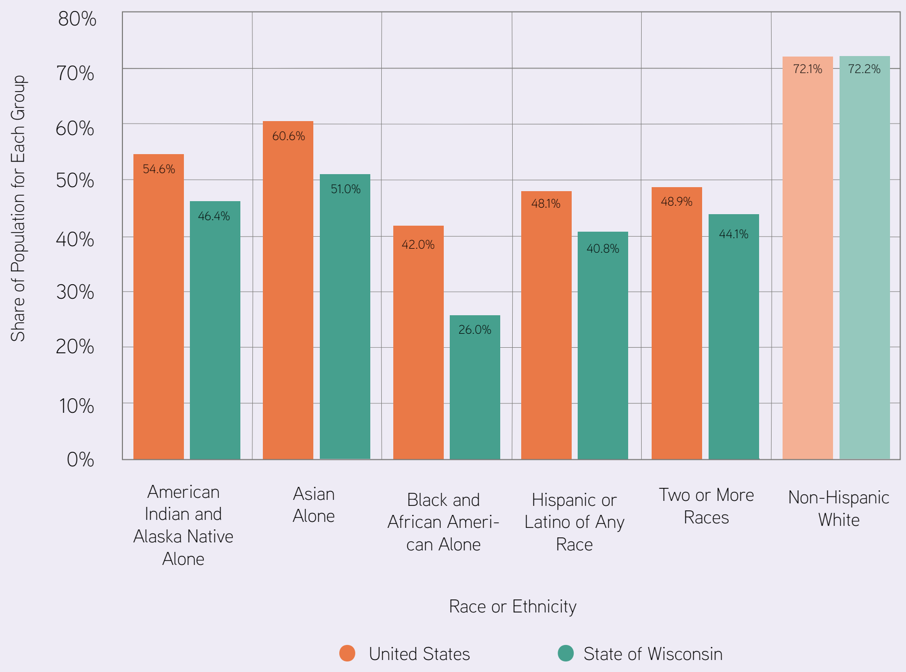
One of the primary challenges for entrepreneurs, but especially entrepreneurs of color, is the inability to access adequate capital to either start or sustain their businesses. Adequate startup capital is essential to keep businesses operational during early stages while entrepreneurs are learning new processes, such as developing effective procedures and forming relationships with their customers and suppliers, before they have a strong sales record. Furthermore, adequate starting capital is linked to profitability, a higher likelihood of business survival, and a greater ability to provide jobs for the surrounding areas. (Bates & Robb, 2013b). Thus, it is critical that early-stage entrepreneurs can access funding for their ventures, particularly entrepreneurs from economically disadvantaged communities.

Communities of color have less wealth in general, which means entrepreneurs of color will often start with less capital. Additionally, amidst these lower levels of wealth in communities of color, entrepreneurs of color, on average, experience more challenges when applying for financing at large and small banks as well as online lenders (Chen, Lin, & Sun, 2021; De Zeeuw, 2019; Federal Reserve Bank, 2019; Federal Reserve Bank, 2021). For instance, these entrepreneurs are less able to rely on loans that require collateral given lower levels of asset ownership in communities of color. This limitation has become more important as dependency on assets for collateral has been rising over time, making it harder for entrepreneurs with lower levels of net worth to form viable businesses (Bates & Robb, 2013b).[1]

We show an example of these disparities in assets by focusing on home ownership in the U.S. in Figure 1: relative to the 72.1% of non-Hispanic white Americans who own homes, only 42% of Black Americans, 48.1% of Latino Americans, 54.6% of Native Americans, and 60.6% of Asian Americans own homes. These disparities are larger in Wisconsin. Older age groups own homes at higher rates; therefore, the racial asset gap could be partially linked to lower rates of home ownership among younger, more diverse generations in Wisconsin and the U.S. (Moore, 2018). The gap in home ownership may be partly due to demographic and geographic factors. Older age groups own homes at higher rates; therefore, the asset gap could be partially linked to the fact that the younger generations of Wisconsin and the U.S. – which are more diverse – experience lower rates of home ownership (Moore, 2018). Additionally, urban areas tend to be more diverse, yet they experience lower rates of home ownership relative to their less diverse rural counterparts (Mazur, 2016). While these factors may explain part of the racial asset gap, they also further amplify the importance of pathways to wealth accumulation for the country's younger and more diverse generations.

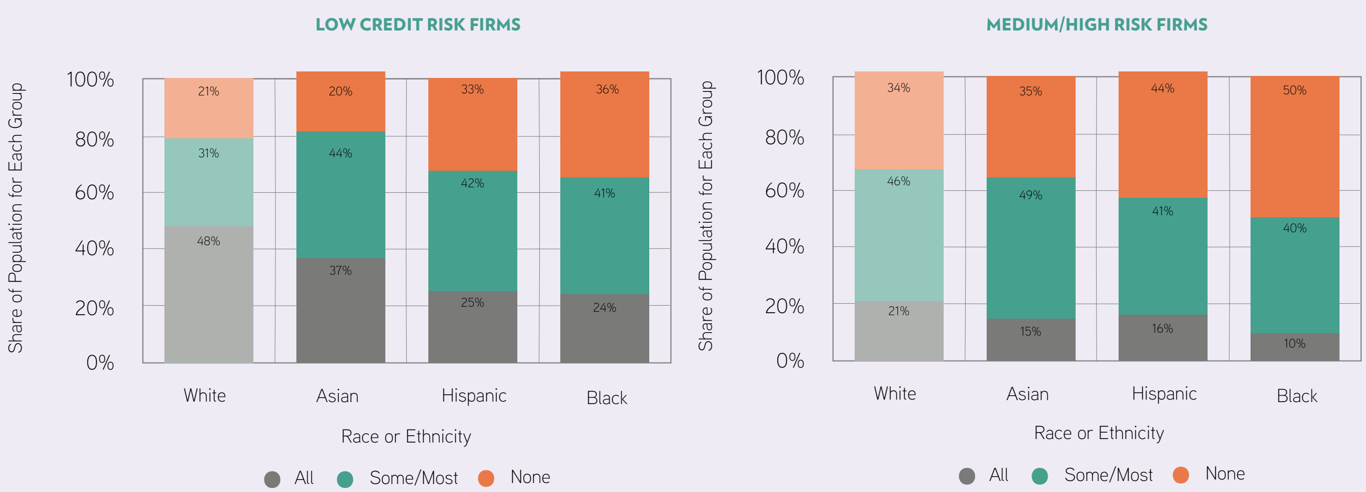
1 In 2017, 93.4% of loans under $100,000 were secured with collateral, a significant increase from the already high share of 85% in 2007 (Toussaint-Comeau & Williams, 2020).

FIGURE 1 | HOME OWNERSHIP BY RACE AND ETHNICITY WISCONSIN AND UNITED STATES 2019



When entrepreneurs of color do seek financing, they are more likely to be charged with greater interest costs, receive smaller loans, and have their loan applications rejected (Bates & Robb, 2013b). In Figure 2, we show the share of non-emergency financing received by applicants in 2020 by race and ethnicity. Business owners of color received less financing relative to their white counterparts, even after accounting for credit scores (De Zeeuw, 2019; Federal Reserve Bank, 2019; Federal Reserve Bank, 2021).

FIGURE 2 | THE SHARE OF TOTAL REQUESTED FINANCING RECEIVED BY CREDIT RISK UNITED STATES 2020



In addition to this financing environment, cultural norms may also prevent entrepreneurs of color from seeking funding from formal banking institutions given the risks associated with borrowing capital and/or a general distrust of the system. Coupled together, business owners of color are less likely than white business owners to borrow from financial institutions and are more likely to look to informal community networks to borrow necessary funds for their businesses (Bates & Robb, 2013b). Business owners of color are also more likely to depend on personal savings as their primary source of funding compared to white business owners; yet, given the previously mentioned wealth gap, this can be a limiting strategy. These initial capital constraints can have long-lasting consequences for future financing as well. To the extent that a capital disadvantage limits the industries and performance of their businesses, entrepreneurs of color become less likely to use their retained business earnings for financing, which is more common among white-owned businesses (De Zeeuw, 2019). This disparity in funding leaves business owners of color in a relatively disadvantaged position.

Businesses owned by people of color are concentrated in sectors with low barriers to entry—perhaps unsurprising given the capital and wealth limitations they face—which are associated with lower levels of sales and growth (Craft, 2018). Supporting existing businesses in high-earning industries as well as encouraging entry into these sectors are important steps towards both the advancement of businesses owned by people of color and wealth creation in communities of color. In Figures 3.1 and 3.2, we highlight Wisconsin-specific information on the sectoral concentration and average sales of both employer and nonemployer firms for the sectors with the highest shares of POC-owned businesses.[2] In our corresponding report, we explain in more detail these disparities in both business ownership and profitability of firms. However, on the whole, businesses owned by people of color, regardless of whether they have employees or not, experience lower average sales and are concentrated in sectors with lower average sales overall. Given the significance of sector concentration in achieving racial equity in the business market, it is important to consider measures which can be implemented to improve access across sectors for emerging entrepreneurs of color and increase existing businesses' access to resources which could advance their success within their industry.

FIGURE 3.1 | SECTORS WITH LARGEST SHARES OF EMPLOYER FIRMS OWNED BY PEOPLE OF COLOR WISCONSIN 2017

Sector	Share of Employers of Color	Share of White-Owned Employers	Average Sales of Employers Owned by People of Color	Average Sales of White-Owned Employers
Accommodation & Food Services	26.59% (1,547 businesses)	10.62% (9,585 businesses)	$749,000	$899,000
Retail Trade	19.10% (1,111 businesses)	11.10% (10,017 businesses)	$2,452,000	$4,664,000
Health Care & Social Assistance	18.27% (1,063 businesses)	8.00% (7,218 businesses)	$649,000	$1,140,000
Total for All Sectors	**5,817 businesses**	**90,255 businesses**	**$1,515,000**	**$2,835,000**

2 In the Appendix, we include the complete tables for the concentration and average sales of all sectors for employer and nonemployer establishments owned by each group.

FIGURE 3.2 | SECTORS WITH LARGEST SHARES OF NONEMPLOYER FIRMS OWNED BY PEOPLE OF COLOR

WISCONSIN 2018

Sector	Share of Nonemployers of Color	Share of White-Owned Nonemployers	Average Sales of Nonemployers of Color	Average Sales of White-Owned Nonemployers
Other Services	20.00% (7,300 businesses)	9.97% (31,000 businesses)	$22,100	$30,300
Transportation & Warehousing	15.34% (5,600 businesses)	5.79% (18,000 businesses)	$34,500	$68,100
Health Care & Social Assistance	10.41% (3,800 businesses)	6.11% (19,000 businesses)	$26,900	$29,400
Total for All Sectors	**36,500 businesses**	**311,000 businesses**	**$33,300**	**$48,500**

In the next section, we break up the following section on financing strategies into two categories: Institutional Financing and Direct Investment. These initiatives support the building of financial capital for POC-led businesses through all stages of development as well as promote their advancement into more lucrative sectors.

STRATEGIES FOR INSTITUTIONAL FINANCING

One of the most significant changes that can be made to formal financial institutions is expanding the amount of lending to POC-led businesses. When access to loans increases for businesses owned by people of color, the opportunities available to the owners grow along with their success (Bates, Farhat, & Casey, 2022; Bates & Robb, 2013b). We also consider ways to build the relationship between banks and owners of color which is fractured from decades of unfair lending practices. This requires building the trust necessary for entrepreneurs of color to have confidence in banks as valuable resources for their pursuits (Baboolall, Cook, Noel, Stewart, & Yancy, 2020).

STRATEGY: EXPANDING INVESTMENT THROUGH COMMUNITY-BASED FINANCING INITIATIVES

Lending to businesses owned by people of color could also be increased by expanding and supporting community-based financing initiatives, such as community development financial institutions (CDFIs). As an alternative to traditional banks, CDFIs lend to communities that are typically inadequately served by the conventional financial system, namely communities of color that face economic disadvantages. CDFIs help get capital into the hands of entrepreneurs who may have been denied through standard evaluation processes. There are four main types of CDFIs: community development (CD) banks, CD credit unions, CD loan funds, and CD venture capital funds (Office of the Comptroller of the Currency). Their focus on community development ensures that these lending institutions are effectively making responsible decisions by accounting for the distinct challenges in each disadvantaged community.

An example of government support to CDFIs and their mission to support low-wealth businesses is the Diverse Business Investment Grant Program in Wisconsin. To support the recovery of the state's diverse businesses following the pandemic, over $28 million in grants were awarded to nine CDFIs which support low capital, small businesses across the state (WisPolitics, 2022a). These CDFIs offer not only access to financial capital, but also other resources which help with business development, such as technical assistance, mentoring, and credit counseling. Given their mission-driven role as lenders that serve small businesses in the interest of community development, direct support of CDFIs immediately helps entrepreneurs of color while supporting the long-term economic development of communities of color.

Many banks invest in CDFIs to support their mission of serving low-wealth communities. For instance, Wells Fargo invests through their Diverse Community Capital program and JPMorgan Chase targets investments to CDFIs with their focus on Community Development Financing. Locally, Wells Fargo awarded $2.35 million through their Open for Business Fund to three Wisconsin nonprofits and CDFIs to increase access to capital for diverse businesses, or those owned by people of color and/or women of all backgrounds (WisPolitics, 2022b). In general, increased government, corporate, and philanthropic funding of these mission-driven initiatives could play a role in creating a supportive business environment for entrepreneurs of color. This funding both provides financial support and resources that assist in the development of POC-owned businesses (Gines, Williams, & Shepelwich, 2020; Klein 2017). In addition to donating to CDFIs or other community-based programs, corporations or other institutions could design their own program that would aim to meet the needs of budding entrepreneurs of color or existing POC-led businesses.

Along with CDFIs and other mission-driven lenders, chambers of commerce which represent racial or ethnic minority groups can play an important role in providing financial support and development resources to businesses owned by people of color. In Wisconsin, there are many chambers of commerce which serve communities of color in the state, including the Wisconsin Black Chamber of Commerce (TWBCC), African American Chamber of Commerce of Wisconsin (AACCWI), American Indian Chamber of Commerce of Wisconsin (AICCW), Wisconsin Latino Chamber of Commerce (LCC), Hispanic Chamber of Commerce of Wisconsin (HCCW), Hmong Wisconsin Chamber of Commerce (HWCC), and Wisconsin Chinese Chamber of Commerce (WCCC). These chambers are examples of community-oriented organizations which support business owners of color. Each chamber seeks to make financial capital accessible for the communities which they serve through programs, such as revolving loan funds. They also offer technical assistance on a range of topics, such as general financial planning, loan application processes, building credit and assets, and more. Additionally, there are other community-specific initiatives which focus on getting capital into the hands of entrepreneurs of color. For instance, Woodland Financial Partners, Wisconsin Native Loan Fund, and First American Capital Corporation (founded by the AICCW) all seek to expand access to financial capital for native entrepreneurs.

STRATEGY: AUTOMATION

Automated services in the banking process could help reduce instances of bias and structural disadvantages as business owners of color pursue financial resources. In a study about automation's role in small business lending, researchers using data from the Paycheck Protection Program (PPP) found that lending to Black-owned businesses increased when traditional banks automated their application processes. This connection between automation and increased lending to Black-owned businesses could not fully be explained by other factors, such as previous banking relationships, application behavior, or business performance. These findings suggest that automating certain lending procedures, such as a manual review of the business, could help reduce discrimination in the lending process. In addition to removing some incidence of human bias in lending decisions, automation can expand lending to businesses led by people of color by providing services across a broader range of geographies and financing needs relative to more conventional lenders (Howell, Kuchler, Snitkof, Stroebel, & Wong, 2021).

While this finding suggests that automation could reduce the influence of human bias in lenders' decision-making process, there are other concerns that the algorithms which construct artificial intelligence can also be biased. Since the algorithms are made by humans, it is possible that they contain human biases; so, a reliance on technology may deepen the already existing disparities faced by marginalized groups rather than eliminate them (Akselrod, 2021). Further, if automation simply imposes conventional standards, then it would remove the potential for character-based evaluation which promotes a more holistic view of entrepreneurs and their ventures. Therefore, if institutions are considering automating or de-automating services they offer, it is critical that they account for both the benefits and disadvantages of their decision and who it would be likely to affect.

A NOTE ON ONLINE LENDING

Given difficulty developing relationships with traditional banks, business owners of color may look to non-bank online lenders as an alternative source of lending (De Zeeuw, 2019). While this can be valuable for entrepreneurs as they build their businesses, these lenders have fewer protections for borrowers relative to banks since they operate outside of the conventional regulatory framework of banking systems. Therefore, non-bank online lending can lead to situations where lenders make decisions that are not in the best interest of the applicant and result in borrowers facing the negative consequences. Overall, it is important for there to be accountability among non-bank business lenders to promote the expansion of equal access to credit while protecting borrowers from predatory lending decisions which challenge the long-term success of their businesses (Klein, 2017).

STRATEGY: BLACK-OWNED BANKS

Another way to reduce discrimination in lending, particularly for Black entrepreneurs, is to support the creation and development of Black-owned banks (BOBs). In contrast to other strategy options that amend existing structures, Black-owned banks offer an alternative to majority-white financial institutions. BOBs, such as Columbia Savings and Loan Association in Milwaukee, play an important and unique role in communities of color. In their commitment to understanding and supporting the financial needs of communities of color, BOBs act as a significant source of capital for those looking to build wealth, start a business, or purchase a home while also providing institutional leadership and sustainable employment to the surrounding community. Since BOBs are primarily located in communities of color that are likely to encounter greater economic disadvantages, these banks are committed to serving the needs of lower- to middle-income business owners of color who are more likely to be excluded from majority-white financial institutions. Similar to their lending to lower-income customers, BOBs tolerate higher risk to adequately serve their customers, such as their decision to increase their service to Black borrowers during the housing crisis (Kashian, McGregory, & McCrank, 2014; Neal & Walsh, 2020).

In the context of business ownership, BOBs are meaningful resources that offer entrepreneurs of color a trusted local option for accessing capital. Despite their importance, the number of individual BOBs is decreasing. A 2020 report attributes the decrease in BOBs to certain structural changes in the financing systems, greater bank competition, and bank concentration. Despite the decline of individual institutions, the same data showed that the number of branches and average deposits at BOBs increased. These data trends tell another story that although individual BOBs are declining in number, the banks are consolidating and finding an ability to service more customers. Overall, BOBs are important resources in communities of color and offer entrepreneurs an alternative to conventional banking structures (Kashian, McGregory, & McCrank, 2014; Neal & Walsh, 2020).

STRATEGY: NEW LENDING STANDARDS

A way to increase lending to entrepreneurs of color may be to restructure underwriting standards to be more flexible and account for the specific challenges faced by businesses owned by people of color. These standards would account for the racial wealth gap which leads to entrepreneurs of color having less initial capital when starting a business. Lowering interest rates and monthly payments, allowing for deferred payments, lowering or eliminating credit score requirements, and lowering collateral thresholds as well as down payments and personal guarantees could all enable entrepreneurs of color to be eligible for more lending and increase their access to capital (Gines, Williams, & Shepelwich, 2020; Klein, 2017). All of these measures reflect the principle behind character-based lending, which places more weight on the character of a borrower rather than their financials and can be part of building relationships with more trust (Gines, Williams, & Shepelwich, 2020; Kagan, 2021). These measures are often adopted by CDFIs, which we cover in more detail in other sections.

As these measures are relatively risky compared to conventional banking standards, the structure of these policies would require that lenders perform sufficient research on the entrepreneur and their business in order to discern whether or not the owners have sufficient financial and non-financial tools to succeed. These more personal measures reduce the significance of an entrepreneur's financials in lending decisions. Additionally, the in-depth exchanges between lenders and entrepreneurs could result in more intentional lending decisions that look to address the specific needs of the entrepreneurs. An analysis of small business lending programs found that simply increasing the amount of small business loans will not significantly increase the number of businesses started by disadvantaged entrepreneurs in low-barrier industries (Bates, Lofstrom, & Servon, 2011). Therefore, restructuring the lending process where lenders understand and properly address the specific capital needs of the borrower would help optimize small business lending. Additionally, lenders could offer non-monetary means of support that prioritize long-term success, such as a broader network of business development organizations and services. Since business success comes from efficient and effective utilization of financial capital as well as human, social, and cultural capital, these comprehensive measures taken by lenders could yield greater success for their borrowers. Later on, we offer more information about these and other measures as we illustrate how human capital is important to business owners of color since business knowledge, skills, and expertise are all critical in leveraging financial capital.

STRATEGIES FOR DIRECT INVESTMENT

Some argue that rather than changing formal financing institutions, the best path to capital for business owners of color is to expand private sector investment. For business owners who have been able to access it, private investment has been a significant financial resource as they develop and expand their businesses. However, it has historically been more difficult for business owners of color to access this type of investment and funding. More recently, there has been a growing effort to channel private money toward diverse entrepreneurs. In the following section, we look at several forms of funding beyond institutional lending that can help meet the capital needs of business owners of color.

STRATEGY: PUBLIC AND PRIVATE SECTOR PARTNERSHIP

When analyzing private sector lending, it is important to consider the potential for public sector partnerships to help expand access to capital for entrepreneurs of color. The public sector has the tools and latitude to identify why certain communities are underserved, and subsequently understand their particular needs. With this information in hand, the public sector can attract private investment by offering an accurate and detailed picture of investment opportunities for private investors, highlighting opportunities, and mitigating risk through guarantee programs (Sass Rubin, 2011).

For instance, the federal government can encourage more investment in underserved communities by offering subsidies – through appropriations and tax credits – to offset the higher costs associated with an investment in lower-wealth communities (Sass Rubin, 2011). In a more detailed analysis of public sector subsidies, Sass Rubin (2010) reviews previous efforts to create investment incentives in underserved communities and provides recommendations for ways in which the public sector can expand equity capital for capital-constrained businesses. Rubin cites the Small Business Administration's (SBA) New Markets Venture Capital (NMVC) program as a measure that delivered federal subsidies to venture funds that invested in distressed urban areas. She argues that the NMVC was significant in targeting venture funding in underserved communities. However, under the Bush administration, the NMVC program was eliminated based on the argument that the existing SBA's Small Business Investment Company (SBIC) program – which the former was modeled after – could fulfill the needs met by the NMVC program (Dilger, 2021; Sass Rubin, 2010).

According to a 2017 report that looked at the period of 1995-2014, the SBIC funding was channeled to over 11,000 small businesses, which provided around 9.5 million jobs. However, in an analysis of the SBIC program's effectiveness, researchers found that there is room for improvement when it comes to supporting businesses owned by people of color (Thrash-Ntuk & Fitter Harris, 2020). Although the SBIC program once included initiatives that targeted underserved minority businesses, it has shifted to providing incentives for investment in low to moderate income (LMI) areas. In theory, this could be beneficial for businesses led by people of color concentrated in lower wealth areas; however, in FY 2018, only 2.4% of all SBIC financing was allocated to businesses with diverse ownership (Thrash-Ntuk & Fitter Harris, 2020). In response to this disparity in allocation, researchers have proposed the following recommendations for the SBIC program to allocate more to small business owners of color: setting specific intentions about the magnitude of investments, implementing tax incentives for investors, partnering with and investing in targeted business development programs such as CDFIs, and increasing the diversity in SBIC leadership (Thrash-Ntuk & Fitter Harris, 2020). These types of reforms to the SBIC program could help strengthen public-private measures that work to expand access to capital for business owners of color.

Another example of a public-private partnership with the intention of expanding access to capital for business owned by people of color are "linked deposit" programs. In these proposed programs, local governments allocate funding to lending institutions at a below-market rate. These intermediaries, like banks and credit unions, then loan to small businesses at a lower interest rate. This system results in diverse entrepreneurs gaining access to important capital while the government office and lending institutions, respectively, earn investment returns and interest on the loans (IL Treasurer's Office; Bates & Robb, 2013b). The Wisconsin Housing and Economic Development Authority (WHEDA) formerly offered a linked deposit loan (LiDL) program which allocated funding to financial institutions who then offered low-cost, short-term loans to small businesses led by women or people of color. Although LiDL is now inactive, WHEDA offers other loan programs that support small businesses in the state. Neighboring states also offer linked deposit programs for businesses in underserved communities, such as the Business Invest – Community Uplift Program led by the Illinois Treasurer's Office. Additionally, driven by the incentive to participate in these programs, banks could be motivated to make internal changes in their lending patterns to increase their accessibility for entrepreneurs of color (Bates & Robb, 2013b). Similarly, strengthening the Community Reinvestment Act could also increase investment in underserved communities since the legislation motivates banks to invest in venture funds which target LMI communities (Sass Rubin, 2010). Overall, these public-private partnerships could contribute to the virtuous cycle of stronger businesses and communities.

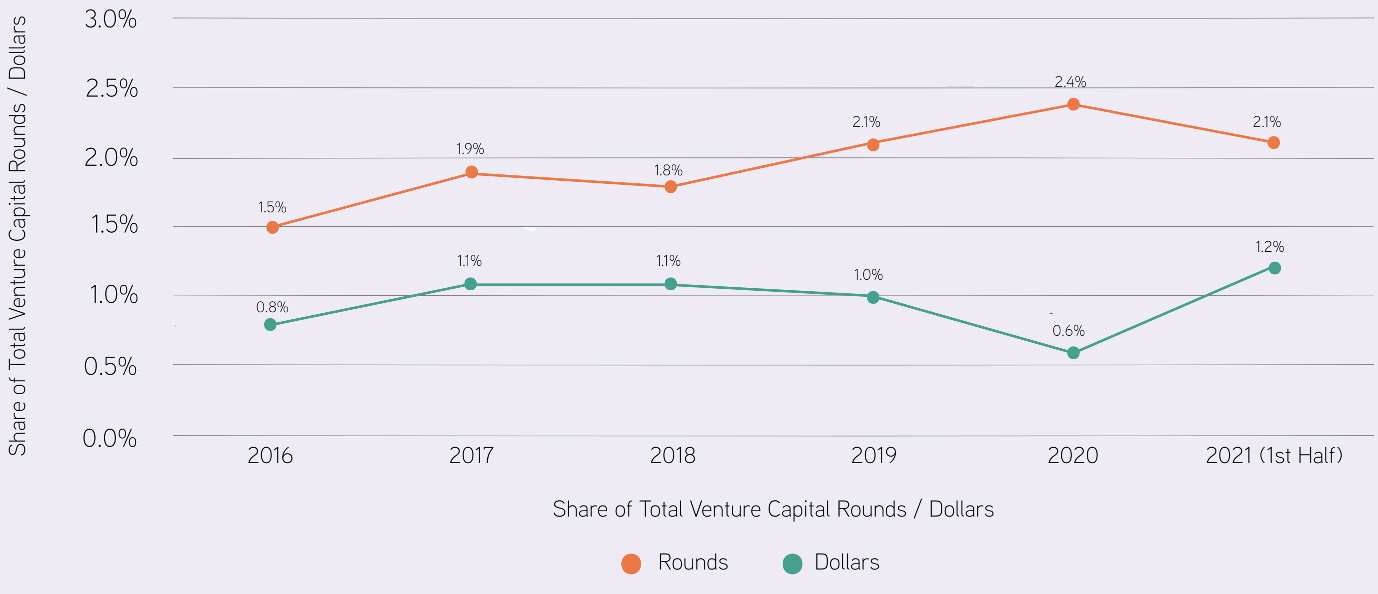
STRATEGY: VENTURE CAPITAL

Although venture capital (VC) is an important funding source, business owners of color receive far less than other businesses. For instance, only 2.6% of total venture capital dollars went to Black or Latino founders in 2020 (Connley, 2020). As shown in Figure 4, less than 1.5% of VC dollars and 2.5% of VC rounds were allocated to Black-founded companies.

Compounding the inequity for entrepreneurs of color in Wisconsin, most VC investment is concentrated on the coasts. In fact, almost 80% of VC funding was distributed to only five geographic areas on the coasts in 2019 – San Francisco, Silicon Valley, New England, New York City metro, and LA/Orange County (Hwang, Desai, & Baird, 2019).

FIGURE 4 | SHARE OF VENTURE CAPITAL ROUNDS AND DOLLARS RECEIVED BY BLACK-FOUNDED COMPANIES

2016 – 1ST HALF OF 2021



Aside from these trends in VC investment which make it an unlikely option for entrepreneurs of color, the investment decision process itself can put ventures led by people of color at a disadvantage. Investors want to invest their money in projects that will have positive returns and have to be selective about their investment decisions (Hwang, Desai, & Baird, 2019). However, the decision-making process of VC investors tends to follow a paradigm based on white-owned businesses. The reliance on a traditional framework tends to exclude entrepreneurs of color since their businesses can look different not only in terms of initial capital but also their approaches and goals (Norman, 2020).

Founders of color encounter different problems, have different solutions to certain problems, reside in different communities, have access to different resources, communicate in different ways, and engage with different cultures (Norman, 2020). Since financing frameworks have been largely modeled after white-owned businesses, these differences that exist across ethnic and racial lines may not align with the conventional standards and expectations held by investors. The prevalence of this framework can lead ventures led by people of color to be seen as riskier investments or having less potential to be profitable – making them seem less attractive for VC investment. One option to expand VC would be to broaden the eligibility thresholds for VC investment which account for differences in terms of initial capital as well as business approaches (Stangler & Wiens, 2014).

The recommendation to expand private investment in communities of color may be met with the argument that investors are averse to investing in firms located in economically disadvantaged areas – regardless of demographic composition – due to concerns about returns (Bates, 2010). However, in his investigation of private investment in underserved urban areas and its effects on economic development, Timothy Bates (2010) explains that profitable returns are possible in low-wealth communities if private investors make certain adjustments to their investing strategies, namely: maintaining a large and diverse portfolio of investments, requiring sufficient collateral or loan guarantees to control loan default risks, and employing experienced managers to analyze potential business investments. The last recommendation for employing skilled managers for this investment would also be a good opportunity for VC firms to diversify their staff, bringing in more people who are familiar with the entrepreneurial nuances specific to communities of color. Making these changes would not only increase investment in businesses owned by people of color and yield positive returns for investors, but they could also contribute to the economic development of low-wealth communities and help debunk the idea that other investors should avoid communities that have been underserved from the world of private lending.

Angel investing is another form of investment that would help entrepreneurs of color. Angel investment is funding from wealthy individuals to businesses that are early on in their start-up period. Investors provide entrepreneurs with financial capital from their own funds and receive equity or convertible debt, a type of financial security that can be converted into shares of the business's stock. Angel investors assume a larger amount of the risk, which means that they are confident and invested in the performance of the business, making them more likely to provide other supportive resources and guidance to the entrepreneurs. Additionally, in the context of lower-wealth entrepreneurs of color, angel investing can protect them from falling into extreme debt if their business does not perform well (Jiang, 2023). Given the benefits of angel investment, it is important to connect entrepreneurs of color to potential angel investors who may take an interest in their project.

One option is for existing institutions oriented toward small business support to create specific programs that connect entrepreneurs of color with angel investors (Klein, 2017). Since many businesses led by people of color receive a disproportionately small portion of private sector investment, many established and successful investors of color are stepping in to become angel investors for emerging entrepreneurs of color (Allam, 2021). While these actions are important for individual businesses, it is critical to build a more robust system that connects a greater number of entrepreneurs of color to potential investors, which can be executed through expanding the networking structures available to emerging entrepreneurs.

STRATEGY: PHILANTHROPIC INVESTMENT

Another important form of direct investment in businesses owned by people of color is philanthropy. Companies, foundations, and individuals can help get capital into the hands of business owners of color by contributing to organizations which expand access to capital in communities of color. With funding from donors, these organizations have the tools and processes to effectively distribute capital to local business owners of color. A local example of this type of organization backed by philanthropists is the Greater Milwaukee Foundation which partakes in direct private investment with the goal of mitigating the inadequate access to capital experienced by communities of color. Among other areas like education and housing, the foundation's impact investing program focuses on providing capital to entrepreneurs and businesses located in communities of color to promote economic opportunities and development. Distributed in the form of loans, equity investments, and loan guarantees, once these investments generate financial returns, the funds are channeled into other projects with similar goals.

Another example of these programs is the Minnesota Inclusive Growth Fund (MIGF) created by the Catalyst Coalition – a group of minority business support organizations in Minnesota. The Coalition developed the MIGF to address disparities in financial capital experienced by underserved communities in the state. The MIGF offers lending to small businesses that are either located in low to moderate income (LMI) areas or are majority owned by diverse owners. Initial monetary contributions came from foundations and companies that sought to mitigate the capital constraints faced by entrepreneurs. Overall, this dynamic between philanthropists and business support organizations can act as a model for how to structure other efforts looking to increase investment in businesses within underserved communities.

SECTION 2: GROWTH, SUPPLY CHAINS, AND ACCESSING CUSTOMERS

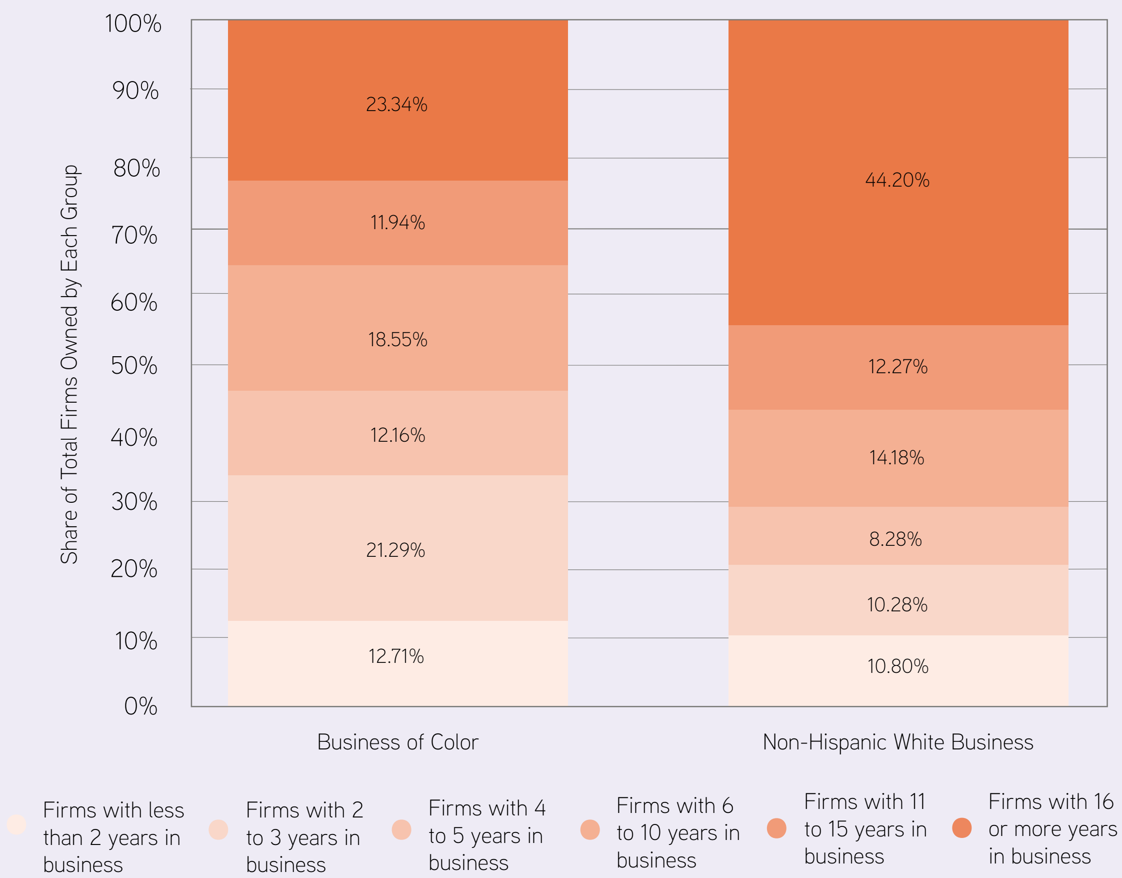
All business owners have their personal preferences and ambitions for growth, which is important to keep in mind when comparing business size across groups. Sometimes preferences may lead an entrepreneur to pursue a modest growth strategy or simply keep the business small. For example, women may be likely to adopt these business plans since they often balance primary childcare or other essential work with their business (Baboolall, Cook, Noel, Stewart, & Yancy, 2020; Patrick, Stephens, & Weinstein, 2016). However, limited access to capital (as previously discussed), supply chains, and consumers, among broader systemic challenges may lead entrepreneurs of color to run smaller businesses than they would prefer.

Among those business owners who desire to grow, business owners of color seem to face more challenges in making the jump to expanding operations and hiring employees. Roughly one in four of the nation's nonemployers are looking to hire employees in the near future, but statistics on employer ownership across groups suggest that this transition from nonemployer to employer is more difficult for business owners of color. In Wisconsin, only 5.9% of businesses with employees are owned by people of color, despite people of color making up 19.2% of the state's population (McDermott, Conroy, & Kures, 2023). Again, it might be that owners' preferences impact the difference in employer and nonemployer ownership, however, it is important to consider the potential effect of other causes such as barriers to growth and difficulty accessing markets and customers (Klein, 2017; De Zeeuw, 2019).

The challenges for small nonemployer business owners are especially relevant to people of color given their large presence in this category. In Wisconsin, 88.3% of minority-owned businesses are nonemployers compared to 77.1% of nonminority-owned businesses (McDermott, Conroy, & Kures, 2023). The majority of the country's nonemployers are not very profitable. According to a 2019 Small Business Credit Survey published by the Federal Reserve, the share of U.S. nonemployers operating at a profit was 10 percentage points greater than the share operating at a loss. For some populations of color, the profitability statistics are more concerning: 2% more Latino-owned and 29% more Black-owned nonemployer businesses operated at a *loss* rather than profit. The weaker financial performance of businesses led by people of color could be linked to the previously discussed challenges – capital constraints that limit the amount of investment, profitability, sector of choice, and/or the growth trajectory for these businesses. (Federal Reserve Bank, 2019). When considering this information about the financial state of businesses owned by people of color, it is again important to remember that every entrepreneur has their own specific preferences and goals for their business. While financial performance is the top priority for many business owners, others may prioritize non-monetary goals, such as keeping their business in operation to provide a necessary service and/or act as an important establishment in their community.

Not only are businesses owned by people of color smaller, but they're also younger (Figure 5). Maturity is an important characteristic to consider because younger firms face bigger challenges in terms of survival and growth. They need additional support to survive their early years and grow to their full potential. With businesses owned by people of color skewing young, these supports may need to be tailored to the specific needs of diverse business owners in order to have the greatest impact. Assistance to these younger firms is also important for the broader economy as younger firms are a significantly greater source of job and productivity growth (Haltiwanger, Jarmin, Kulick, & Miranda, 2016).

FIGURE 5 | AGE OF EMPLOYER FIRMS WISCONSIN 2020



In addition to being smaller and younger, businesses owned by people of color also tend to be located in relatively diverse communities where they are more likely to experience an economic disadvantage. The lack of wealth in communities of color can contribute to a vicious cycle that stunts businesses owned by peoples of color and further curbs community development. Driven by a history of spatial and social segregation, limited opportunities for diverse audiences, and disinvestment of public resources in communities of color, the local consumer base can experience greater financial difficulties and thereby have relatively low purchasing power. Weak purchasing power in these communities means constrained demand for local businesses, which are more likely to be owned by people of color (Bonds, 2007; Craft, 2018). To further exacerbate the situation, residents who become wealthier are more likely to leave their economically deprived communities, leading to a decrease in the amount of financial and human capital available to current and potential entrepreneurs in a community (Bates & Robb, 2013a).

Additionally, entrepreneurs of color may need to consider their safety in certain settings when making initial decisions about where to locate their business. In a study examining the effect of hate crimes on businesses in Kentucky, researchers found that the number of firms owned by people of color decreased in counties with more hate crimes, while there was no change among white-owned firms (Geisler, Enomoto, & Djaba, 2019). This result suggests that targeted violence can have an impact on where entrepreneurs of color decide to open their businesses, potentially keeping them from the location that is most promising for growth and economic performance.

A NOTE ON THE DATA

For our original analysis featured in this policy brief and corresponding report, we use data from the U.S. Census Bureau. While fulfilling a fundamental role in understanding trends across the United States, we recognize the weaknesses of the data and how they may influence the accuracy of our reporting. The Census has a history of undercounting racial and ethnic minorities as well as other groups considered to be "hard-to-count" populations, such as young children, low-income individuals, non-English speakers, those experiencing homelessness, renters, residents of multi-family housing, those living in remote areas, and undocumented immigrants. Conversely, the Census tends to overcount non-Hispanic white populations and more affluent groups (Cai, 2020; Georgetown Center on Poverty and Inequality, 2018; Kight & Brown, 2019). These different patterns may lead the data to tell a skewed story that disproportionately represents more affluent or white Americans, which is important since this data is used to inform decision-making in policy. While we mainly focus on Census data, these inaccuracies can also apply to the data from other sources, so when we report statistics from other studies and sources, it is important to keep these discrepancies in mind.

In addition to undercounting/overcounting certain groups, other information may also be underreported within the datasets. For instance, the data on employees or payroll receipts may be different than reality as business owners may informally pay family members or friends to contribute to the business. Therefore, while the data may show that a group of business owners may provide their community with a lower level of employment or income generation, it is important to recognize that the data will not account for more informal measures. Overall, while researchers – us included – try to achieve the highest level of accuracy, it is still important to understand that every dataset has limitations, and these limitations are often relevant to understanding overlooked groups such as people of color or low-income individuals.

Alongside measures to increase access to lending and investment, measures that work to increase growth opportunities for businesses owned by people of color are important to overall performance. In this section, we look at measures that can be implemented to increase sales and encourage the formation of productive relationships between businesses owned by people of color and private and public enterprises. The expanded professional network experienced by entrepreneurs of color would support the cultivation of social capital, which leads to more access to information and non-monetary resources.

STRATEGIES TO DIVERSIFY SUPPLY CHAINS

In response to the Civil Rights Movement of the 1960s, the Nixon administration established the Office of Minority Business Enterprise (OMBE), known today as the Minority Business Development Agency (MBDA), alongside other policies working towards expanding economic opportunities in communities of color. This effort resulted in supplier diversity policies and programs, which encourage private and public enterprises to contract with businesses owned by people of color (Diversity Inc, 2019). Typically, suppliers of color go through a certification process that classifies them as a diverse business, and subsequently, adds them to a larger database of diverse businesses. Businesses diversifying their supply chains can either work with these certifying agencies to access their database of diverse businesses or identify diverse suppliers themselves. While these policies facilitate important business relationships, there are many challenges within the system. Many of these can be addressed by restructuring the current system, which has not been significantly updated in five decades (Burton, 2021).

STRATEGY: SUPPLIER DIVERSITY IN THE PRIVATE SECTOR

While recorded data on the matter is limited, one report estimates that only 10% of corporate spending goes to "disadvantaged businesses," or businesses owned by women, people of color, members of the LGBTQ+ community, veterans, or people with disabilities (Burton, 2021). One significant problem with the current model driving these disparities in supplier spending is the certification process. Certification is necessary for diverse businesses to join the directory which buyers use to find and connect with diverse suppliers. Currently, official certifying agencies have only certified 13,000 businesses, a small fraction of the total number of U.S. businesses led by people of color. Even after a business is certified, they are not guaranteed new contracts but rather are required to submit additional information to databases and individual corporations in search of potential opportunities (Burton, 2021). Additionally, the sectoral concentration of business led by people of color affects the reach of supplier diversity programs as they are underrepresented in the top spending categories of supplier diversity programs, such as construction (Prilepok, Stewart III, Yearwood, & Zegeye, 2022).[3] Businesses owned by people of color are also less commonly in sectors that are sought for corporate or government contracts, such as construction and manufacturing.

Despite flaws in this system, the certification process remains an important step in supplier diversity. According to a 2018 survey, 72.2% of business respondents reported that they found diverse suppliers through certification agencies. By improving the existing certification process, more businesses owned by people of color could be included in the formal

3 According to a 2022 report from McKinsey & Company, the top five spending categories for mature supplier diversity programs, or those which are at least 10 years old, are: Consulting and professional services, Staffing, Advertising and marketing, IT, and Construction. These categories are concentrated in the following sectors: Professional, scientific, and technical services (54), Administrative and support and waste management and remediation services (56), and Construction (23) (Prilepok, Stewart III, Yearwood, & Zegeye, 2022). Using Census data for Wisconsin specifically, we compare what percent of minority and nonminority employer businesses are in each sector: 54 – 8.2% minority and 10.5% nonminority; 56 – 4.0% minority and 6.0% nonminority; and 23 – 5.0% minority and 14.9% nonminority (U.S. Census Bureau, 2017). Overall, relative to the shares of nonminority firms in each sector, minority-owned employer firms in Wisconsin are widely underrepresented in these sectors that attract the highest amount of supplier diversity spending.

supplier diversity network. Additionally, third-party organizations devoted to developing these businesses could offer technical assistance to help business owners of color navigate the certification process. After certifying agencies, the other two most common ways that respondents found diverse suppliers were through other diverse suppliers and third-party providers (CVM Solutions, 2018). With this in mind, business development organizations could also offer more guidance about how businesses owned by people of color can develop their online presence to attract more customers. Lastly, increased efforts to build networks among diverse suppliers could also assist corporate buyers in contracting with more businesses owned by people of color.

Aside from increasing connections between diverse suppliers and corporate buyers, another measure that would help diversify supply chains is to encourage corporations to either implement a supplier diversity program or improve upon their existing one. Most businesses with a program report that these programs effectively help them find and contract with diverse suppliers who meet their needs (CVM Solutions, 2018). Importantly, the effectiveness of these programs was linked to their maturity, suggesting it takes time to properly structure and implement these programs for success (CVM Solutions, 2018). Adequate resources also need to be allocated to the supplier diversity programs for them to be successful. The majority of businesses dedicate only one or two employees at most to work full-time on their supplier diversity program (CVM Solutions, 2018). Corporations could improve upon their programs by adding more employees to these programs as well as advancing the training and resources available to the employees working with the program. Additionally, corporations could create and expand supplier development programs to enable collaborations to improve the products and services offered by the supplier. These programs not only improve the performance of the corporations by bettering the services of their suppliers, but they also equip the suppliers to provide better services in future business relationships, thereby attracting more business. 51% of the respondents in the previously mentioned survey reported having either an informal or formal supplier development program, indicating a strong foundation for enhancing these programs in the future (CVM Solutions, 2018).[4]

STRATEGY: PROCUREMENT POLICIES IN THE PUBLIC SECTOR

In addition to diversifying supply chains in the private sector, government offices and community anchor institutions, such as hospitals and universities, can adjust their procurement spending and strategies to contract with more businesses owned by people of color. Government and anchor institution contracts not only increase the revenue for businesses owned by people of color but also help expand their business operations and number of employees. For instance, in a study about business growth among Black entrepreneurs, researchers found that Black-owned businesses that experience a high rate of annual

4 To highlight important considerations when developing these supplier diversity programs, we looked at a study about a specific program facilitated by the Civic Committee of the Commercial Club of Chicago. Acting as an intermediary, the Civic Committee sought to reduce the informational barrier between larger corporations and small suppliers in high poverty neighborhoods of Chicago. Their overall goal was to increase the revenue of the suppliers and create jobs in the neighborhood. However, the contracts formed through the program did not generate many new jobs nor create significant procurement relationships. The program's lack of success was mainly due to the small suppliers already working below capacity and fighting to stay afloat, which put them in a position where they were unable to make major investments in capital and labor that would accommodate large contracts. While the connections facilitated by the Civic Committee did not live up to the expected outcomes, the pilot program does offer a few lessons to consider when structuring supplier diversity initiatives. When large corporations, small diverse suppliers, and intermediaries are working together to diversify supply chains, it is important to ensure that the expectations and commitment of the large corporations align with the capacities of the small suppliers in order to form successful business relationships. Additionally, if there is an intermediary – like the Civic Committee – facilitating these connections and contracts, they could actively provide more support to these diverse suppliers to ensure that they are able to effectively fulfill the contract (Weber & Schnell, 2003).

employment growth are more likely to market to the government sector, which suggests that government contracts may be linked to job creation (Boston & Boston, 2007).

Another study finds that government procurement programs can result in business expansion and greater employment opportunities in communities of color (Bates 2009). The businesses that participated tended to be larger than other non-participants in the same region and their owners were more likely to have graduated college. However, relative to the white-owned vendors in the study, the businesses owned by people of color were typically smaller, younger, more financially restricted, and likely to be excluded from “insider networks” found within the industry in which the businesses were located (Bates, 2009). These comparisons suggest that capacity, financing, and network development may be necessary for success.

Still, many procurement programs have resulted in little support of business owners of color and have an insignificant effect on the community’s economic development (Bates, 2009). One measure for improvement is to expand and strengthen government policies to specifically include *small* businesses owned by people of color which are more likely to face capacity challenges when working with large buyers. For example, to address capital and cash-flow difficulties created by delayed payment, procurement programs could either require prompt payment from the purchasing corporation or act as an intermediary and directly loan the necessary working capital to diverse contractors, which they would pay back after receiving payment from the buyer. This will help ensure that these diverse businesses aren’t excluded from certain projects or go bankrupt while waiting for payment (Bates & Robb, 2013b; Gines, Williams, & Shepelwich, 2020; Klein, 2017). Overall, these reshaping measures will allow for more small businesses owned by people of color to participate in procurement programs as they ease entry requirements for the programs and adequately equip businesses to carry out their responsibilities (Bates, 2009).

STRATEGY: THIRD-PARTY INITIATIVES TO SUPPORT SUPPLIER DIVERSITY

Third-party initiatives can also help connect private sector purchasers to diverse suppliers. One significant organization that pursues this mission is the National Minority Supplier Development Council (NMSDC). The NMSDC looks to achieve economic equity in underserved communities of color by supporting and advocating for minority business enterprises (MBEs). With regional affiliates across the country, the NMSDC works to build social capital by expanding the network of MBEs and connecting them with corporations, the public sector, and other MBEs. A significant part of the NMSDC’s structure is their certification process which, after completion, provides certified MBEs with access to networking opportunities along with educational resources which assist with business development. This certification process is performed among regional affiliates of the NMSDC. Located in Minneapolis, the North Central Minority Supplier Development Council (NCMSDC) is the affiliate that services Wisconsin along with Minnesota, Iowa, North Dakota, and South Dakota.

Similar to measures offered by the NMSDC and its regional affiliates, there are other Wisconsin-based organizations which provide ways for business owners of color to build social capital through connecting with corporations or government offices. For instance, the Wisconsin Economic Development Corporation (WEDC) hosts the Governor’s Annual Conference on

Diverse Business Development, called Marketplace. Marketplace is a two-day event that focuses on connecting government and corporate buyers to diverse small businesses, specifically those owned by people of color, women, veterans, and people who identify as LGBTQ+. In addition to its networking component, Marketplace also offers workshops, panel discussions, buyer meetings, and more educational opportunities.

Another way in which organizations connect business owners of color with corporate and government buyers is through developing and adding to databases of diverse businesses. Wisconsin-based organizations, such as the African American Chamber of Commerce of Wisconsin and MKE Black, offer business directories of Black-owned businesses that firms could contract with to diversify their suppliers. Additionally, to reach more potential buyers, diverse businesses can add themselves to the databases of organizations that either currently have an active directory or are developing one, such as the database created by African Heritage, Inc that features businesses owned by people of color in northeast Wisconsin. Overall, these organizations which work to connect diverse businesses with purchasers in the private and public sector could help increase the business traffic for businesses owned by people of color and give them a more central role in supply chains.

SECTION 3: EDUCATION AND MENTORSHIP

In this section, we look at measures that can be implemented to cultivate non-monetary types of capital that support entrepreneurs of color. First off, we cover measures to build human capital, or the knowledge, skills, education, and expertise held by a person or community. Human capital motivates entrepreneurial activity, drives business development, and attracts financing. A concentrated effort to provide measures to increase human capital could encourage entrepreneurs to start businesses, offer them tools that would help them sustain operations, and give them information about how to break into more profitable industries.

Next, we look at building social capital in communities of color through developing impactful relationships and expanding the professional networks of entrepreneurs of color. Connections with experienced entrepreneurs, potential clients, business partners, political leaders, and other professional contacts within an industry help provide the next generation of entrepreneurs with valuable information, mentorship, business opportunities, and more.

Last, we include ways to leverage the cultural capital within communities of color and build cultural capital among the organizations that support business owners of color from a range of cultural backgrounds. Cultural capital can be mobilized to better serve specific audiences with a shared cultural heritage, to identify unique market opportunities, and innovate business practices. A distinct cultural point of view can lend insight into the surrounding community and help entrepreneurs identify how their venture will interact with the community for a specific comparative advantage. Cultural capital is important to entrepreneurs as it equips them with a greater understanding of the needs, preferences, and values of the surrounding community, and ultimately helps them to find success while adequately serving the community. Educators and business support organizations can also build their cultural capital by learning more about those they serve and developing culturally appropriate materials, making them more relevant to diverse audiences.

Throughout the following sections, we primarily look at community organizations that work to develop these non-monetary forms of capital in communities of color and provide technical assistance to business owners of color. However, it is also worthwhile to note that aside from these organizations, existing institutions within communities, such as other businesses, local government, anchor institutions, and community groups, can also play an important role. To assist in cultivating non-financial capital in the community, these institutions can develop structures which connect emerging entrepreneurs to valuable non-monetary resources and business relationships.

STRATEGY: PROGRAMMING BY BUSINESS DEVELOPMENT ORGANIZATIONS

In the rest of this section, we highlight different education and training programs – primarily at the community level – that encourage entrepreneurs at all stages, from those taking the first steps to existing business owners who are planning for growth. These programs offer opportunities for entrepreneurs to expand their knowledge, skills, and access to important resources. These initiatives may be branches of a larger organization that promotes entrepreneurship and business development in communities of color while others may be stand-alone establishments that are located in and focused on one particular community. Additionally, these initiatives can be implemented through other organizations, such as neighborhood associations, local governments, universities, and other larger foundations.

Business development organizations focus on educating and training entrepreneurs, providing them with the tools to start a business, survive, and grow – all of which help build human capital in communities of color. Their services may include assistance with drafting a business plan, legally creating a business entity, securing financing, managing the business's finances and payroll, acquiring necessary licenses and permits, purchasing appropriate insurance, and more (Prakash, 2020). Similarly, these organizations can help entrepreneurs of color navigate the programs and systems we describe earlier in the brief. For instance, these organizations can provide guidance on how to secure supplier diversity and procurement contracts through training, mentorship, and more resources. Business development initiatives also add value by helping entrepreneurs develop interpersonal skills like collaborating, marketing, and negotiating. Lastly, these organizations may be able to help businesses look to the future by discussing trends, opportunities, and technological advances.

In addition to structured instruction and guidance, business development organizations can focus on building social capital, which would offer greater mentorship and expanded professional networks to emerging entrepreneurs of color. Increased mentorship and professional networks can be facilitated through programs which connect entrepreneurs with established owners, networking events, and membership clubs and activities which encourage interaction and relationships among entrepreneurs. As mentors, successful entrepreneurs can use their personal experience to offer expertise and guidance to new entrepreneurs as they navigate the business environment (Casey, 2012; Ogutveren Gonul, 2018). Though introductions alone may not be enough, coupled with ongoing interaction and trust, they can lead to important business relationships. Expanding the professional networks of entrepreneurs of color can connect them with potential business partners, clients, and other supportive contacts, which are all significant in the business development process (Baboolall, Cook, Noel, Stewart, & Yancy, 2020).

These organizations could enhance their offerings to entrepreneurs of color by first involving them in the discussions and development of new services. Hammer and Malual (2020) found that entrepreneurs of color in rural northeastern Wisconsin were often not aware of what these (usually white-led) organizations could offer to their business development processes. Even among those who did know about them, some entrepreneurs of color didn't trust that their services would be appropriate for their specific situation. Since every community is unique, each will have its own individual set of challenges that require specialized education to address. Developing this tailored content may first mean developing their own multicultural knowledge and skill, or cultural capital, through programs such as Maximizing Business Success with Entrepreneurs of Color in Your Community through UW-Madison Division of Extension.

With these skills in hand, organizations may then be ready to build relationships with their target audience and collaborate with them on what effective business development support would entail for their context. While this may seem like a lengthy intermediate step, for entrepreneurs and business organizations, building this social capital is essential for effective programming (Hammer & Malual, 2020). Overall, these skills and relationships would help organizations customize content to address topics specific to businesses led by people of color (Gines, Williams, & Shepelwich, 2020). For instance, organizations could focus on connecting entrepreneurs of color to small loans, which tend to be more relevant for business owners of color since they are more likely to be nonemployer businesses in industries with lower barriers to entry.

Still, entrepreneurs may hesitate to risk what assets they have through financing and it may be necessary to consider additional protections to personal wealth to make even small loans a safe option for entrepreneurs of color. Similarly, offering pathways and assistance with nontraditional finance such as CDFIs and rotating loan funds can also be beneficial for entrepreneurs of color given challenges within the conventional financing framework. In addition to financial guidance, other services offered by these organizations could help diverse entrepreneurs navigate the formal systems required for business ownership. These services could include offering translation and interpretation of business materials by bilingual employees, greater assistance with forming a legal entity and acquiring the necessary licensing, meeting the local business regulations, and more.

Examples of Business Development Organizations in Wisconsin

In Wisconsin, many organizations focus on the goal of supporting business owners of color throughout the state by developing human, social, and cultural capital. As mentioned earlier, many racial and ethnic chambers of commerce offer access to financial capital, but also other resources which help entrepreneurs of color through other aspects of business development. Through these resources, chambers aim to provide entrepreneurs of color with business consultations, guidance on business management, networking opportunities, technical assistance, and more. With their community-specific mission and cultural knowledge, these chambers can offer effective support since their leadership tends to be members of the community who have greater expertise and understanding of what their community needs. Additionally, these chambers of commerce participate in advocacy work for policies and legislation that support business owners of color as well as economic development in communities of color in Wisconsin. Many chambers, however, are under-resourced relative to the needs of the communities they serve and have a limited geographic reach. To contribute to the fulfillment of these organizations' missions, individuals or corporations could support them through donations or investment, partnerships, and supporting their advocacy work for specific issues.

An example of a business support organization that is led by and serves business owners of color is the ColorBold Business Association in northeast Wisconsin which works to build relationships between entrepreneurs of color and nonprofit leaders of color while connecting them with organizations and other resources which support their growth. In addition to building the professional networks of entrepreneurs of color, ColorBold offers other resources such as educational events like panel discussions and webinars, networking events, technical assistance, training workshops, and help with accessing grants. Similarly, for businesses owned by Indigenous entrepreneurs, Woodland Financial Partners not only acts as a lender but also offers other tools that assist entrepreneurs with their specific business needs to assist in business development.

Another Wisconsin-based organization working to support diverse businesses is the Madison Public Market. Though still in development, the vision is to build an inclusive, year-round marketplace comprised of local businesses, that works to build "equity through entrepreneurship" by acting as a small business incubator and accelerator, particularly for those owned by people of color. In addition to offering these businesses affordable rent, commercial production spaces, and the potential access to over 500,000 customers per year, the organization has also offered its MarketReady Program to support the development of these businesses. The program works to prepare entrepreneurs and small businesses for their launch in the Public Market by connecting them with resources, coaching, and mentorship. A similar program also based in Madison is the Black Business Hub offered by the Urban League of Greater Madison. The Hub will be the location of businesses owned by people of color while also acting as a center dedicated to the support, development, and networking of entrepreneurs of color in the Madison area. Overall, given an individual entrepreneur's limited access to important resources and networks, business development organizations at the regional, state, and national level are important for connecting entrepreneurs of color with the training, relationships, and information necessary for building a successful business.

Multiple chambers of commerce in Wisconsin offer programs that build entrepreneurial skills in communities of color and work to develop businesses owned by people of color. Focused on presenting entrepreneurship as a viable career path, the African American Chamber of Commerce of Wisconsin offers its RISE MKE program. RISE MKE is a 14-week training program that costs $250 and provides guidance for entrepreneurs on building their businesses, covering topics like marketing and branding, expanding professional networks, and more. The program provides participants with access to funding, mentorship, networking opportunities, and a support system that continues after the conclusion of the program. To expand entrepreneurial opportunities among young adults who did not complete high school, AACCWI created a similar but separate program – RISE HSED – where participants can learn entrepreneurial skills while earning their High School Equivalency Diploma upon completion of the 16-week program. In addition to expanding entrepreneurial activity among the younger generation, the program works to close education gaps found in communities of color.

Similarly, the Wisconsin Latino Chamber of Commerce offers its Tu Empresa program, which translates to Your Company. Tu Empresa works with emerging and existing entrepreneurs to develop the skills, knowledge, and networks that are valuable to business ownership. Lasting 14 weeks, the program offers training, guidance, and mentorship on successful business practices and facilitates networking between business professionals. At the beginning of the program, there is an orientation that assesses the individual needs of each participating entrepreneur, which helps them develop their specific goals for the program. Overall, to continue expanding entrepreneurial activity in underserved communities, these models for entrepreneurial programs could be adopted by other chambers of commerce or other organizations which look to support business owners of color.

STRATEGY: RESOURCES PROVIDED BY FORMAL FINANCING INSTITUTIONS

Similar to the community-driven mission of CDFIs, financial intermediaries, such as banks, credit unions, grant programs, and other lenders, can offer business development resources to business owners of color while simultaneously expanding their access to funding. While helping the businesses, this provision could also help financial intermediaries given their interest in the success of the businesses they lend to. Aside from these supports, these initiatives could help facilitate meaningful connections between entrepreneurs of color and potential mentors, business partners, clients, and local officials who can support these business owners as they develop and expand their businesses (Servon, Fairlie, Rastello, & Seely, 2010).

Looking beyond banks, other financial intermediaries that are invested in entrepreneurs of color are essential since they enable greater access to funding, promote healthy relationships with financial institutions, and provide other supportive resources and services. Supporting and expanding the reach of business development organizations is significant as they can offer funding through loans or grants in addition to other services that directly help with business development (Servon, Fairlie, Rastello, & Seely, 2010). Additionally, other organizations focused on financial health are vital for business development. Credit Builders Alliances (CBA) and other credit-focused initiatives are important as they concentrate on expanding access to more financial capital while simultaneously offering services that help entrepreneurs of color establish and build credit (Klein, 2017).

Along with the creation of the previously mentioned Diverse Business Investment Program which primarily supported CDFIs in Wisconsin, more than $57 million was awarded to the Diverse Business Assistance Program. The program distributed this funding to 24 chambers of commerce and non-profit organizations across the state. The recipient institutions focus on small business development, so the grants fund resources such as mentorship, technical assistance, financial aid, digital literacy, and other training and networking opportunities which help develop business operations (WisPolitics, 2022a). While the Diverse Business Assistance Program is government-led, similar grant programs could be implemented by private entities or financing institutions to expand access to capital for entrepreneurs of color.

To meet entrepreneurs' potential needs, banks can play an important role by referring entrepreneurs of color to these organizations and additional resources if they themselves cannot offer services, assistance, and guidance that complement their loan services. In the same vein, local organizations and government offices can also take other action to connect businesses led by people of color with services that assist in business development through a strong referral system whether formal or informal. As part of developing a strong entrepreneurial ecosystem, all organizations working to support entrepreneurs can work together to connect entrepreneurs to the best organization for their needs, facilitate introductions, and focus on general awareness of the institutions, resources, and specific funds that entrepreneurs can access to expand their operations (Servon, Fairlie, Rastello, & Seely, 2010).

STRATEGY: ENTREPRENEURIAL EDUCATION FOR TARGETED AUDIENCES

One way to motivate entrepreneurial activity in communities of color is by exposing younger generations to entrepreneurship. Initiatives focused on educating youth of color about entrepreneurship can inform them about the entire entrepreneurial process from the beginning idea stage to its realization into a successful enterprise. Topics covered would include the creative ideation and start-up process, financing and operating the business, collaborating and negotiating with others, expanding the size and scope of the enterprise, and more. These topics can be taught in many engaging ways: lessons on the basics of the business environment, presentations from successful entrepreneurs and investors, or hands-on learning through projects where they practice the entrepreneurial process by creating and marketing their own start-up ideas (Rodov & Truong, 2015). For instance, as chapters of the national program, Fort Atkinson, WI and Fond du Lac, WI host an annual Lemonade Day, which seeks to teach their community's youth about the important basics of entrepreneurship through opening and operating a lemonade stand.

School-sponsored initiatives, such as entrepreneurship clubs or class modules, can focus on introducing middle and high schoolers to the basics of business creation and operation. One example of this type of instruction is INCubatoredu, which is a national program offered by several high schools in Wisconsin. INCubatoredu teaches students about the entrepreneurial process from ideation to business development to promoting and pitching their venture. These practices tailored for the younger generation of entrepreneurs could also take place through other programs, such as clubs or summer camps offered by local universities, youth organizations like the YMCA, Boys and Girls Club of America, and Boy and Girl Scouts, along with other more local community groups. Some of the existing national programs are sponsored by larger corporations, banks, venture capital, and other investing firms. Local entrepreneurial organizations can seek sponsorships from local establishments to promote a broader community effort to encourage entrepreneurship among the younger generations. On the flip side, local banks and firms can establish and sponsor these clubs to support the community in cultivating entrepreneurs and promoting future economic development (Foster, 2017).

Entrepreneurship can also be factored into existing programs focused on teaching financial skills. Many school systems and organizations offer programs that aim to improve financial literacy among the youth in the community, which include a component of entrepreneurship, such as the Boys and Girls Clubs' Money Matters program supported by the Charles Schwab Foundation. While these programs help provide financial education to youth in low-wealth communities, critics claim that efforts to improve financial literacy in communities of color focus on individual behavior rather than address the systemic challenges which deepen wealth disparities. Efforts oriented around financial literacy alone are unlikely to reduce the gap but may be more impactful coupled with efforts that more fundamentally address the sources of wealth disparities (McKim, 2021).

Exposing youth to the option of entrepreneurship provides them with the tools and expertise to meaningfully pursue their ideas, and teaches important informaton and skills for other careers. Even if participants do not decide to pursue business ownership initially, being well-versed in the business environment and having this entrepreneurial experience will build practical knowledge and skills for them to bring to other careers, such as business development, financing systems, and marketing.

Similar to how RISE HSED addresses gaps in education, other educational programs can address particular challenges faced by communities of color, such as providing economic opportunities for incarcerated or previously incarcerated people. Due to hiring barriers connected to criminal records, an estimated 60% of formerly incarcerated Americans are without jobs at any given time according to the Prison Policy Initiative (Wang & Bertram, 2022). Those who have jobs earn less than their potential income prior to incarceration (The Pew Charitable Trusts, 2010).

Since communities of color disproportionately face the effects of incarceration, programs which focus on exposing incarcerated people to entrepreneurship would be more likely to increase the level of entrepreneurial activity in communities of color. In Wisconsin, UW-Madison Division of Extension and Defy Ventures have collaborated to form the Entrepreneur in Training Partnership (EITP). To expand entrepreneurship among those with lived experience of incarceration in prison or jail, EITP offers educational courses on business, career, and personal development and long-term access to a supportive network of mentors and peers. In addition to expanding entrepreneurship in communities of color, participants who learn to "think like a boss," are more likely to be hired and stay employed after incarceration despite employment barriers. Based on the Reentry Wellbeing Model from Pettus-Davis and Kennedy (2020), the program provides participants with a positive sense of self and their future, which increases their ability to find meaningful roles in their community and family, which then reduces recidivism. In fact, graduates of Defy Ventures' in-prison programs nationwide have a recidivism rate of less than 10% after one year and less than 15% after three years, compared to the respective national rates of 20% and 39% (Defy Ventures, 2023). To support this program, individuals or institutions can make monetary donations, become a coach or mentor for entrepreneurs, refer aspiring Entrepreneurs in Training to the program, and volunteer at group business coaching events. After connecting with entrepreneurs-in-training and hearing about their goals, volunteers can then be inspired to work toward fair-chance hiring practices, which could further help create a more welcoming economy for them when they return.

Another initiative that works to expand entrepreneurship in communities of color is the Latino Entrepreneurial Network (LEN), which offers resources to entrepreneurs in Latino communities in Milwaukee. LEN works to address disparities caused by the language barrier by educating individuals about entrepreneurship and business development through bilingual instruction. The organization also hosts an 8-week accelerator program that offers business coaching and training to established entrepreneurs. Overall, programs which tailor their services to certain groups, such as immigrants, non-native speakers, older entrepreneurs, those living in remote areas, and more, all work to include underserved communities in entrepreneurship.

In general, initiatives focused on education and training in communities of color provide entrepreneurs of color with non-financial resources that help them overcome the challenges previously outlined in this brief. Human capital is critical to entrepreneurship since it provides the skills and knowledge that are required throughout the business process – from ideation to expansion. Although we explain the importance of implementing these initiatives in communities of color, these measures can be applied to other economically deprived areas, such as some rural communities or other low-wealth neighborhoods.

LABOR MARKET CHALLENGES AND CHOOSING BUSINESS OWNERSHIP

Given the range of challenges facing entrepreneurs in general and entrepreneurs of color in particular, it is worth considering the motivations driving them to choose business ownership. Many self-employed entrepreneurs of color may choose to start businesses because they want to create something of their own to share with the world. Business ownership also grants greater flexibility and independence to entrepreneurs as they become their own boss. This autonomy can lead to greater career satisfaction as well as additional opportunities for advancement (Beckhusen, 2014; Craft, 2018). Another draw of business ownership is that its benefits extend to the families and community of the entrepreneur. Beyond building generational wealth for their family, entrepreneurs may see business ownership as an opportunity to invest in the legacy and future of their community. While businesses generally offer their specific products and services to the surrounding community, they also work to build capital in different forms. Through providing job opportunities or monetarily giving back to the community, businesses can build much-needed financial capital. Additionally, they can build human capital by acting as a professional resource and providing mentorship, experience, expertise, and inspiration for future entrepreneurs and other businesses. They can also act as an establishment where community members can gather, which helps build cultural and social capital by strengthening the sense of community. By recognizing the advantages of business ownership in their personal lives as well as within their community, entrepreneurs of color may opt for business ownership to build something for themselves and others around them.

While many aspects of business ownership make it attractive for people of color, some may choose self-employment when good opportunities for work as employees are lacking. Self-employment may become a viable option during economic downturns for workers who may have no other options given higher unemployment, lower wages, and less stability (Beckhusen, 2014). People of color may also find self-employment attractive when facing an unfair job market. A forced turn to self-employment has been labelled as the "disadvantaged worker theory of self-employment" where self-employment becomes a worker's last resort for a beneficial way to generate income (Patrick, Stephens, & Weinstein, 2016). This theory may help us understand the motivation for self-employment among some people of color, despite there being substantial challenges to business ownership. Entrepreneurs may also pursue business ownership without full knowledge of the difficulties that they may encounter along the way, highlighting the importance of support early and often in the business start-up process.

The turn to self-employment in response to unfair practices in the labor market is particularly relevant for people of color as they face more unemployment, wage discrimination, higher job turnover, fewer opportunities for career advancement, and unsatisfactory working arrangements with less stability and protection. These disparities reflect the effects of structural disadvantages and discriminatory practices in the labor market as well as other economic and social symptoms of racism that impact the employment in communities of color, such as disparities in employment opportunities, education, incarceration, and wealth accumulation (Brown, 2020). The inequities in the labor market and broader societal structures have all played a role in making the labor market a potentially unfavorable place for workers of color, which could motivate this shift to self-employment. We take a closer look at these inequities in the call out box "An Overview of Labor Market Inequities".

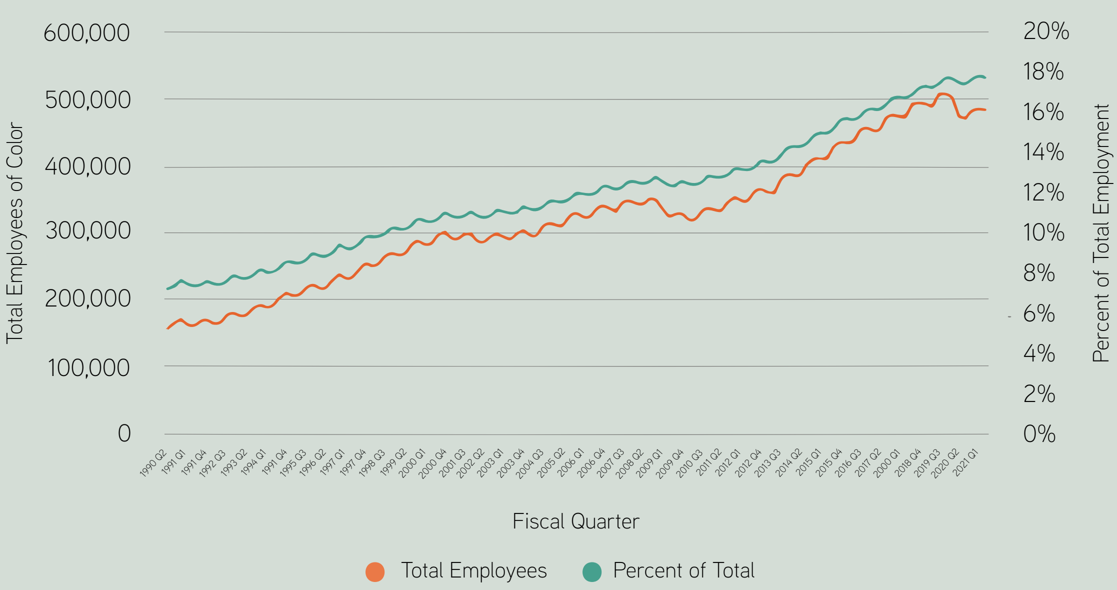
Whether driven by the aspiration to build a business or the need to escape an unfavorable labor market (or a combination of both), entrepreneurship can be a way to make a living as well as offer autonomy, greater satisfaction, more opportunities, and a meaningful way to build community (Beckhusen, 2014; Patrick, Stephens, & Weinstein, 2016). The choice of self-employment does payoff: a study commissioned by the Association for Enterprise Opportunity compared the wealth levels of a group of individuals over a five-year period. They found that the wealth of individuals who chose self-employment increased over three times their initial wealth. In contrast, those who remained not self-employed only experienced an increase of about 1.6 times their initial wealth (Association for Enterprise Opportunity, 2020). Importantly, there was no breakdown by race or ethnicity and these average results may hide disparities across groups.

AN OVERVIEW OF LABOR MARKET INEQUITIES

As workers of color represent a growing number and share of the labor force in Wisconsin, it is important to consider how the labor market experience varies with race and ethnicity (Figure 6). Workers of color, particularly Black and Latino workers, on average have a different experience than non-Hispanic white workers. Black and Latino workers experience higher rates of job loss, driving higher unemployment rates with the implication of greater labor market instability for these workers (Cajner, Radler, Ratner, & Vidangos, 2017). On average, the unemployment rate of Black workers is double that of white workers, and similarly, the rate for Latino workers is consistently 1.5x greater than that of white workers (Ajilore, 2020; Brown, 2020). The unemployment rates for Black and Latino workers are also typically more cyclical, or susceptible to changes in the economy. This means that during economic recessions, unemployment disproportionately increases among Black and Latino workers relative to white workers.

FIGURE 6 | TOTAL EMPLOYEES OF COLOR AND SHARE OF TOTAL EMPLOYMENT BY QUARTER

WISCONSIN 1990 – 2021



Labor market segregation also plays a role by limiting the amount and types of jobs available to people of color. Spatial mismatch between communities of color and the location of good job opportunities, segregated formal and informal networks, and disparities in education, training, and experience all contribute to labor market segregation. Labor market segregation forces Black and Latino workers into lower-wage occupations with limited room for career advancement, fewer worker protections and benefits, and worse working conditions (Brown, 2020). Additionally, Black and Latino workers are more likely to be forced into unconventional and worse working arrangements, particularly involuntary part-time employment, which leads to lower earnings, fewer benefits, and more instability (Cajner, Radler, Ratner, & Vidangos, 2017; Glauber, 2017).

Hiring, workplace, and wage discrimination also contribute to racial and ethnic disparities in employment. In a field study from 2004, researchers sent in applications for fictitious applicants of similar quality in response to job postings but modified the names to make them sound like either a white person or Black person. Across all positions, industries, and company sizes, they found that applications with white-sounding names received about 50% more callbacks for interviews, which means that Black applicants need to apply for 15 jobs to achieve the same success rate as a similarly qualified white applicant who has applied for 10 openings (Bertrand & Mullainathan, 2004). This hiring discrimination thus forces applicants of color to devote more time and resources to the hiring process and may make them feel underqualified for an appropriate job, which could drive them to apply for jobs below their capabilities—meaning lost productivity for the economy at large.

Unfair practices do not stop after the hiring process as both discriminatory compensation and upward mobility also affect workers. In the workplace, employers discriminate against their employees of color by not offering them important promotions or other non-pecuniary opportunities that could help build their resumé and professional networks, such as in-person client engagement. Post-hire discriminatory practices in the workplace prevent many Black and Latino workers from moving up in their companies, gaining relevant experience, and earning more money. Research has found that workers of color are less likely to be promoted and more likely to be demoted, to stall mid-career, or to lose their jobs entirely (Brown, 2020). Additionally, workers of color are more likely to have less favorable performance reviews and receive less compensation than white workers for similar performance (Brown, 2020).

The wage gaps between white and nonwhite workers also pose a growing problem for workers of color in the labor market. The gaps between the wages of white workers and Black and Latino workers have only grown. In 1979, the white-Black gap was 17.3% and the white-Latino gap was 18.8%, whereas in 2019, they had risen to 26.6% and 28.4%, respectively. These wage gaps become even more inequitable as the education level of the workers rose, which discounts the argument that education is the solution to the problem (Brown, 2020). All of these challenges in the hiring process and workplace make it difficult for workers of color to effectively build and advance their careers, which results in cumulative lower lifetime earnings. Given these issues in the labor market and broader societal issues that create opportunity and skills gaps, people are faced with the decision of sticking it out in the labor market, dropping out of the labor force entirely, or turning to self-employment.

In fact, the choice of workers of color to leave in favor of entrepreneurship can actually help to reform the labor market as they become employers. Business ownership can reduce hiring discrimination and decrease unemployment and poverty in communities of color by offering employment; thus, creating somewhat of a positive feedback loop (Craft, 2018). Recent research finds that when minority-owned firms are added to the labor market, the owners' incomes increase along with the average wage of a minority worker and the minority share of aggregate income. However, these simulations also find that minority-owned businesses are at a distinct disadvantage given their late arrival in the business economy (Fain, 2017).

CONCLUSION

Throughout this policy brief, we emphasize the importance of business ownership within communities of color as it drives income generation and wealth accumulation for entrepreneurs and employees of color, and contributes to broader community development. Our proposed strategy options focus on building four types of capital – financial, human, social, and cultural. We offer ways to build these forms of capital in three broad categories: funding and financing, supply chain diversification, and education and mentorship.

Throughout the funding and financing section, we offer policy options for ways to expand access to financial capital for entrepreneurs of color. If implemented in culturally appropriate and effective ways, the growth in sustained financial support for entrepreneurs of color could help increase the size of their business operations and create more jobs in communities of color. Additionally, increased access to capital could encourage more entrepreneurs of color to start businesses while maintaining the success of existing businesses owned by people of color. With time, these policies have the potential to increase the success of entrepreneurs of color, who then can support and provide guidance to the next generation of entrepreneurs.

In the section focused on diversifying supply chains, we covered measures that could build sustainable business connections between purchasers and businesses owned by people of color. We highlighted measures that could be implemented by both private and public establishments to diversify their sellers as well as third-party organizations that facilitate these connections. Both expanding these business relationships and increasing the revenue for businesses owned by people of color could help these businesses expand their operations, obtain a long-term position in supply chains, create employment opportunities in communities of color, and build wealth for themselves and their community.

Lastly, the section on education and mentorship offered measures that could build human, social, and cultural capital. We looked at organizations that directly help with the development of entrepreneurs of color as well as other programs that work to expand entrepreneurship in communities of color. Supporting and expanding these initiatives could increase the amount of non-monetary capital available to business owners of color and facilitate the success of their businesses.

While the adoption of one or two of these solutions would help to support entrepreneurs of color, their individual success would likely increase if multiple solutions were simultaneously implemented. Especially when working towards entrepreneurship-led economic development, it is imperative for communities to take a holistic view of entrepreneurs, and to be intentional in creating robust, equitable, and inclusive entrepreneurial ecosystems. Aside from community-led capital building, it is also important these efforts reflect a collaborative effort across all community members in order to increase the overall impact.

Our proposed strategies offer immediate avenues to support entrepreneurs and businesses within communities of color, yet there are other policies that would indirectly improve the business environment for owners of color. Broader policies

Broader policies that seek to close the racial wealth gap would help expand access to financial and human capital in communities of color. High-level examples of these policies are those which seek to improve education systems and other public resources in communities of color, those which increase accessibility to homeownership, those that increase the opportunity for economic mobility, and more. Although beyond our publication's scope, these policies would similarly improve the business environment to support entrepreneurs of color and their businesses.

LIST OF ACRONYMS

AACCWI - African American Chamber of Commerce of Wisconsin

AICCW - American Indian Chamber of Commerce of Wisconsin

BOB - Black-Owned Bank

CBA - Credit Builders Alliances

CDFI - Community Development Financial Institution

EITP - Entrepreneur in Training Partnership

HCCW - Hispanic Chamber of Commerce of Wisconsin

HWCC - Hmong Wisconsin Chamber of Commerce

LCC - Wisconsin Latino Chamber of Commerce

LEN - Latino Entrepreneurial Network

LiDL - Linked Deposit Loan; program offered by the Wisconsin Housing and Economic Development Authority

LMI - Low to Moderate Income

MBDA - Minority Business Development Agency

MBE - Minority Business Enterprises

MIGF - Minnesota Inclusive Growth Fund

NAICS - North American Industry Classification System

NCMSDC - North Central Minority Supplier Development Council

NMSDC - National Minority Supplier Development Council

NMVC - New Markets Venture Capital; program offered by the Small Business Administration

OMBE - Office of Minority Business Enterprise

POC - people of color

PPP - Payment Protection Program

SBA - Small Business Administration

SBIC - Small Business Investment Company; program offered by the Small Business Administration

TWBCC – The Wisconsin Black Chamber of Commerce

VC - Venture Capital

WCCC - Wisconsin Chinese Chamber of Commerce

WEDC - Wisconsin Economic Development Corporation

WHEDA - Wisconsin Housing and Economic Development Authority

APPENDIX

APPENDIX A | SHARE OF EMPLOYER FIRMS AND AVERAGE SALES BY SECTOR WISCONSIN 2017

Sector	Share of Employers of Color	Share of White-Owned Employers	Average Sales of Employers of Color	Average Sales of White-Owned Employers
Accommodation & Food Services	26.59% (1,547 businesses)	10.62% (9,585 businesses)	$749,000	$899,000
Retail Trade	19.10% (1,111 businesses)	11.10% (10,017 businesses)	$2,452,000	$4,664,000
Health Care & Social Assistance	18.27% (1,063 businesses)	8.00% (7,218 businesses)	$649,000	$1,140,000
Professional, Scientific, & Technical Services	8.20% (477 businesses)	10.51% (9,483 businesses)	$1,391,000	$962,000
Other Services (Except Public Adminitration)	6.65% (387 businesses)	7.63% (6,884 businesses)	$357,000	$593,000
Construction	5.04% (293 businesses)	14.85% (13,405 businesses)	$1,437,000	$2,301,000
Administrative & Support & Waste Management & Remediation Services	3.95% (230 businesses)	5.93% (5,355 businesses)	$1,550,000	$1,466,000
Transportation & Warehousing	2.91% (169 businesses)	4.87% (4,397 businesses)	$380,000	$1,901,000
Wholesale Trade	2.20% (128 businesses)	5.15% (4,650 businesses)	$9,221,000	$11,024,000
Manufacturing	1.99% (116 businesses)	7.65% (6,905 businesses)	$10,963,000	$8,834,000
Finance & Insurance	1.86% (108 businesses)	4.22% (3,809 businesses)	$449,000	$1,226,000
Real Estate & Rental & Leasing	1.24% (72 businesses)	3.91% (3,527 businesses)	$486,000	$1,055,000
Educational Services	1.00% (58 businesses)	0.91% (819 businesses)	$189,000	$348,000
Information	0.76% (44 businesses)	0.91% (822 businesses)	$728,000	$5,657,000
Arts, Entertainment, & Recreation	0.21% (12 businesses)	1.90% (1,176 businesses)	$123,000	$780,000

APPENDIX B | SHARE OF NONEMPLOYER FIRMS AND AVERAGE SALES BY SECTOR WISCONSIN 2018

Sector	Share of Employers of Color	Share of White-Owned Employers	Average Sales of Employers of Color	Average Sales of White-Owned Employers
Accommodation & food services	26.59% (1,547 businesses)	10.62% (9,585 businesses)	$749,000	$899,000
Retail trade	19.10% (1,111 businesses)	11.10% (10,017 businesses)	$2,452,000	$4,664,000
Health care & social assistance	18.27% (1,063 businesses)	8.00% (7,218 businesses)	$649,000	$1,140,000
Professional, scientific, & technical services	8.20% (477 businesses)	10.51% (9,483 businesses)	$1,391,000	$962,000
Other services (except public administration)	6.65% (387 businesses)	7.63% (6,884 businesses)	$357,000	$593,000
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Administrative & support & waste management & remediation services	3.95% (230 businesses)	5.93% (5,355 businesses)	$1,550,000	$1,466,000
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Wholesale trade	2.20% (128 businesses)	5.15% (4,650 businesses)	$9,221,000	$11,024,000
Manufacturing	1.99% (116 businesses)	7.65% (6,905 businesses)	$10,963,000	$8,834,000
Finance & insurance	1.86% (108 businesses)	4.22% (3,809 businesses)	$449,000	$1,226,000
Real estate & rental & leasing	1.24% (72 businesses)	3.91% (3,527 businesses)	$486,000	$1,055,000
Educational services	1.00% (58 businesses)	0.91% (819 businesses)	$189,000	$348,000
Information	0.76% (44 businesses)	0.91% (822 businesses)	$728,000	$5,657,000
Arts, entertainment, & recreation	0.21% (12 businesses)	1.90% (1,176 businesses)	$123,000	$780,000

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Figure 1

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