



Asset Funders Network

The Grantmaker Webinar Series 2015

presents

Closing the Racial Wealth Gap
through Business Ownership

July 16, 2015

12pm CST/1pm EST – start time

Webinar Control Panel Overview

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Questions for Presenters

Please open the **QUESTION BOX** in your control panel to type questions for presenters at any point during the webinar.

The webinar moderator will select questions to ask during the Question and Answer Session.

The Asset Funders Network

AFN is a community of national, regional and community-based foundations and grantmakers who are strategic about using philanthropy to invest in economic opportunity and financial security for all Americans.

Mission

Increase the capacity of our members to effectively promote economic mobility by supporting efforts that help low-and moderate-income individuals build and protect assets.

Desired Impact

Raise the visibility of and funding for activities that expand access to financial opportunities and strengthen communities.

Webinar Agenda

- Welcome, Setting the Stage and Introduction of Speakers
Annika Little
Asset Funders Network
- Narrowing the Racial Wealth Gap through Business Ownership
Joyce Klein
Director, FIELD at the Aspen Institute
- Moderated Question and Answer Session
- Perspectives: Funding Business Ownership with a Lens for Addressing the Racial Wealth Gap
Jeanne Wardford, W.K. Kellogg Foundation
Daniel Delehanty, Capital One
- Moderated Question and Answer Session

Introduction of Presenters

Moderator

Annika Little | Asset Funders Network

Presenters

Joyce Klein | FIELD at the Aspen Institute

Jeanne Wardford | W.K. Kellogg Foundation

Daniel Delehanty | Capital One



Annika Little



Joyce Klein



Jeanne Wardford



Daniel Delehanty

Narrowing the racial wealth gap through business ownership



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Key Topics for Discussion

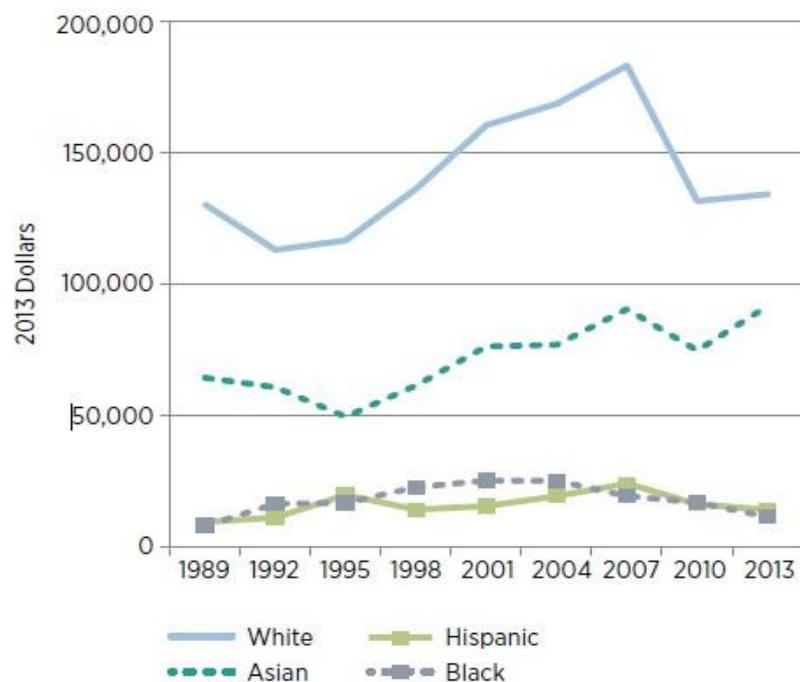


1. The racial wealth gap and the role of business ownership
2. Strategies – micro/small business and worker coops
3. Recommendations for funders

What is the racial wealth gap?



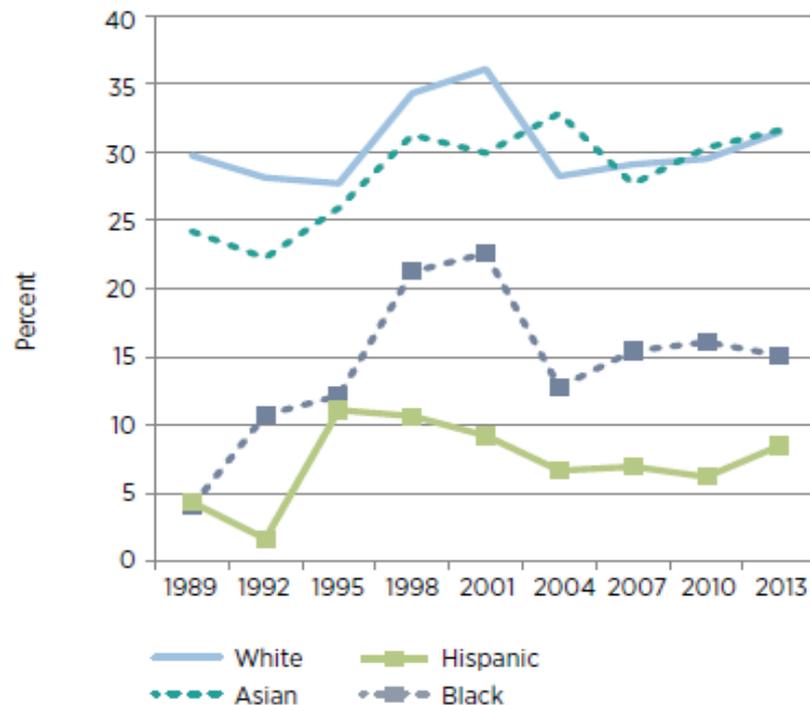
Figure 1. Median Family Net Worth



In 2013 the net worth of Latino families was about one-tenth that of white, non-Latino families, and the net worth of African-American, non-Latino families was even lower.

Reference: Ray Boshara, Williams R. Emmons, and Bryan J. Noeth, *The Demographics of Wealth, Essay #1: "How Age, Education and Race Separate Thrivers from Strugglers in Today's Economy."* St. Louis, MO: Federal Reserve Board of St. Louis, Center for Household Financial Stability (February 2015), p. 7.

Figure 6. Median Share of Total Assets Invested in Financial and Business Assets



African American and Latino families have **lower rates of investment in financial and business assets**, “which provide both **asset diversification** and **higher average returns** in the long run than a portfolio consisting mostly of tangible assets like a house, vehicles or other durable goods.”

Reference: Boshara et al, p. 11-12.

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Lower levels of assets among African Americans account for more than **15 percent** of the difference between the rates of business creation among Whites and African Americans; low levels of assets explain **more than half** of the business entry rate gap for Latinos.



Reference: Fairlie, Robert W., "Entrepreneurship among Disadvantaged Groups: An Analysis of the Dynamics of Self-Employment by Gender, Race, and Ethnicity." *Handbook of Entrepreneurship 2*, eds. Simon C. Parker, Zoltan J. Acs, and David R. Audretsch, Springer (2006), p.23.

Rates of growth in business ownership among non-whites are growing....



However, in recent years the rate of growth in the number of non-white owned businesses has **far outpaced** the growth in white-owned firms.



Reference: Bradford, William D. *Minority Businesses in the U.S.: An Economic Review of Scholarly Research since 2000*. University of Washington – Foster School of Business (31 July 2013). Web.

<http://www.tabor100.memberlodge.com/Resources/Documents/Kauffman%20report.pdf>

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...especially among African Americans and Latinos



Table 1. Growth in Numbers of Minority-Owned Firms, 1997-2007

	Number of Firms		Growth Rates (%)
	1997	2007	1997-2007
All U.S Firms	18,431,456	27,097,236	47%
Nonminority Firms	15,645,358	20,107,000	29%
All Minority Firms	2,786,098	5,762,940	107%
Black-Owned	780,770	1,921,881	146%
Hispanic-Owned	1,121,443	2,260,309	102%
Am Native-Owned	187,921	236,967	26%
Asian-Owned	785,480	1,549,664	97%

Reference: U.S. Department of Commerce, Bureau of the Census, Survey of Minority-Owned Business Enterprises, Company Statistic Series 1997 and 2007.

But business growth remains a challenge



In comparison to white-owned businesses:

African-American and Latino-owned businesses:

- Have lower sales
- Hire fewer employees
- Have smaller payrolls

African-American firms:

- Have lower profits
- Have higher closure rates

Reference: Fairlie, Robert W. and Alicia M. Robb, "The Causes of Racial Disparities in Business Performance." *National Poverty Center Policy Brief 12* (October 2008), p. 1.

Why lower growth and success rates?



Research shows **three main causes for lower growth and success rates** among African-American and Latino-owned firms:



Lower levels of owner know-how

in terms of education levels and experience in family-owned businesses



Financing

in terms of family wealth to invest, and the ability to access external sources of capital



Market access

including the tendency of minority-owned firms to focus on co-ethnic rather than broader markets

Reference: Fairlie and Robb, and William D. Bradford, among others.

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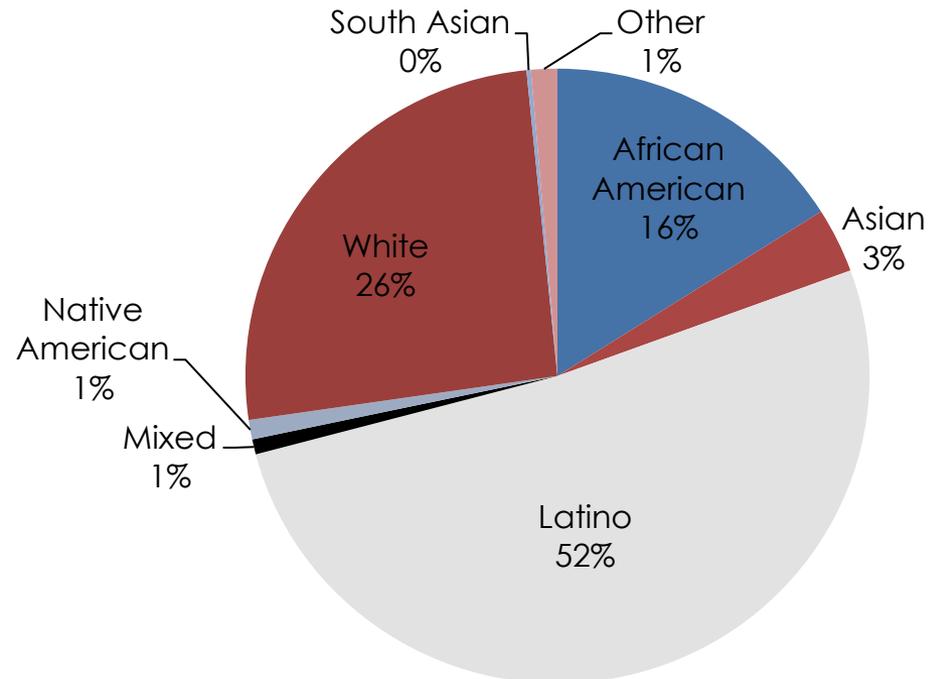
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Funding strategies



1. Micro and small business support – lending, business development services
2. Worker-owned cooperatives

In FY13, **74%** of clients served by microbusiness programs **were non-white.**



Based on data from 177 MDOs reporting to the U.S. Microenterprise Census. Data on racial and ethnic characteristics was reported on 62,144 of 115,364 clients

MDO client outcomes



For non-white owned firms:

- **95% still in business** after one year
- 64% business start rate
- **54% of the businesses employed paid workers.**
Average of 2.89 jobs per business, paying \$15.16 median hourly wage
- **\$45,000 median business revenues**
- Average **revenue increase of \$12,777** after a year
- **\$10,000 median owner's draw**

MDO client outcomes



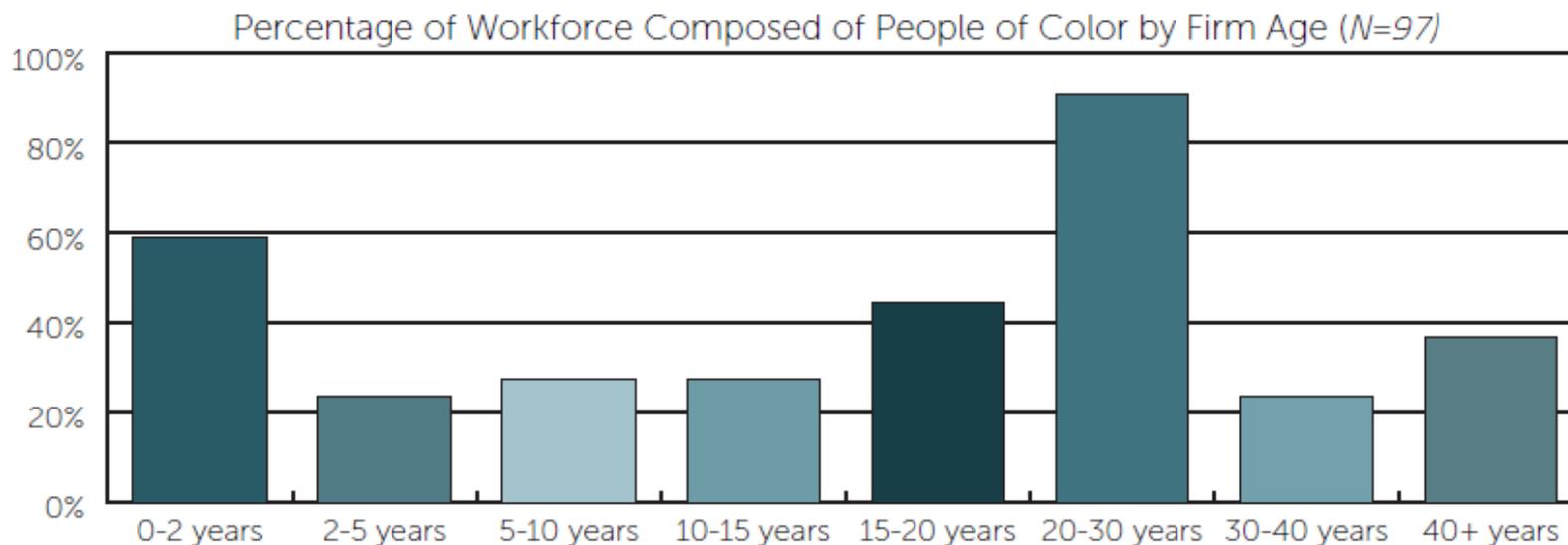
Relative to white-owned firms, African American and Latino-owned firms have:

- Similar business start and survival rates.
- **Lower revenues and revenue growth** than white-owned firms.
- **More paid workers**, more likely to have full-time (vs. part-time) workers, and paid out more in wages on an annual basis.

Worker Cooperatives serve people of color



- In 2013, there were **256** worker-owned cooperatives (1% of all co-ops) who employed **2,500 to 3,500 worker-owners**
- In 2012 and 2013, nearly **60%** of people in new worker cooperatives were **people of color**.



Reference: US Worker Cooperatives: A State of the Sector.

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Worker Cooperatives by the Numbers



Despite increasing public interest, worker cooperatives are not common. In the United States in 2013, there were:

- **\$128 million total business assets**
- \$983,000 average revenue
- 11 employees on average
- **6.4% average profit margin** vs 5.9% for private firms

Reference: Abell, Hilary. *Worker Cooperatives: Pathways to Scale*. The Democracy Collaborative, 2014.p. 5-6;
US Worker Cooperatives: A State of the Sector. Democracy at Work Institute. Web.
http://institute.usworker.coop/sites/default/files/State_of_the_sector.pdf

Research shows that worker-owned coops create...



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Better pay

Pay well above industry average at Arizmendi, CHCA and WAGES cooperatives

Asset building

In some WAGES cleaning coops, members' average business assets are nearly \$9000

Job tenure

15% employee turnover at Cooperative Home Care Associates vs. 40-60% industry-wide

Operational efficiency

Worker coops in the plywood industry were 6-14% more efficient than competitors

Business longevity

65% of Canadian coops survived 5 years vs. 40-50% of comparable businesses

Community well-being

Higher indexes of social well-being in health, education, crime, and social participation

Reference: Abell, Hilary. *Worker Cooperatives: Pathways to Scale*. The Democracy Collaborative, 2014.

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project
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Recommendations



- **Invest in small business and microenterprise CDFIs and mission-based lenders**
- Support research into and the development of **models that promote savings and build credit for potential entrepreneurs**
- Support business development organizations that **develop the business ownership skills of Latino and African American entrepreneurs**, and expand their ability to access broader markets
- Build the **infrastructure** to support the success and growth of worker cooperatives; **Invest directly in cooperatives**
- **Fund research**

Q & A Session

Moderator

Annika Little | Asset Funders Network

Presenter

Joyce Klein | FIELD at the Aspen Institute



Annika Little



Joyce Klein

Please open the question box in your control panel to submit questions.

Note, due to time and topic constraints, all questions may not be addressed, but we endeavor to address each question.

Perspectives: Funding Microbusiness with a Lens for Addressing the Racial Wealth Gap

Jeanne Wardford | W.K. Kellogg Foundation
Daniel Delehanty | Capital One



Jeanne Wardford



Daniel Delehanty

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Asset Funders Network

What's next?

Asset Funders Network provides a unique and vital space where funders gather in-person or virtually to share ideas, best practices, and gather input to maximize our resources and share progress.

Visit our website to learn more about in-person convenings, webinars, and resources Asset Funders Network seeks to increase the capacity of grantmaker members to effectively promote economic security by supporting efforts that help low and moderate income households build and protect assets.

To learn more about the
Asset Funders Network, please visit
assetfunders.org



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today's webinar.**

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*Your feedback is greatly valued
by AFN - thank you!*



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Thank you for attending today's webinar.

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The Webinar has concluded.