

Insights on Minority Business Growth

A Report on the Growth-Related Challenges Experienced by Minority-Owned Businesses in Texas



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Executive Summary

PROBLEM

While the number of minority entrepreneurs in the United States continues to grow, minority-owned businesses (MOBs) are not growing at the same rate as non-minority-owned businesses (non-MOBs). The research team affiliated with the SCALEUP program at Texas State University is focused on answering the question: **What factors affect the growth of minority businesses?**

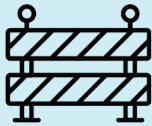
PROCESS

A multi-part research process was used, which included conducting detailed interviews with 21 MOBs and surveying 108 business owners in Texas.

FINDINGS

Key themes emerged from the studies. The 4 primary findings are summarized below.

1



Obstacles to Growth

The most common and most difficult types of growth-related challenges faced by MOBs relate to obtaining financing, external engagement, and growth strategies.

2



Differences in Growth-Related Financing

The use of personal/family savings is the most common source of growth financing reported by both MOBs and non-MOBs. However, when other financing sources are considered, nearly twice as many MOBs use personal credit cards with balances to finance business growth.

3



Confidence in Banks

Fewer than 10% of MOBs report using a bank loan to finance their growth. The percentage of non-MOBs that use bank loans is more than double this amount. When investigated further, results show that MOBs have significantly less confidence in banks compared to non-MOBs.

4



Desired Support for Growth

In a "perfect world," MOBs envision additional training and access opportunities. From local banks, MOBs desire better guidance on loan applications as well as educational, financial, and cultural support.

Background

The SCALEUP program is focused on helping minority businesses grow.



Minority businesses are growing at a slower rate than non-minority businesses



Texas State University focuses on conducting research with relevance



SCALEUP was launched as a university-wide program in 2020

In 2019, Texas State University established the [Center of Innovation & Entrepreneurship \(CIE\)](#). As a university-level center, the CIE engages with faculty, students, and alumni who are eager to change the world for the better by offering direction and supporting them with access to essential resources.

Texas State University is home to over 38,000 students—a majority of whom are minority students—and is a federally designated Hispanic-Serving Institution.¹ Additionally, the state of Texas is experiencing population growth at a rate approximately twice that of the nation, and over 95% of the growth is attributed to racial and ethnic minorities.²

Recent data show that minority-owned businesses are growing at a slower rate than non-minority-owned businesses. In fact, if minority-owned businesses grew at the same rate, over \$6 trillion would be added to the United States economy and more than 21 million new jobs would be created.³

Driven by the potential to make an impactful change and Texas State University's dedication to conducting research with relevance, Mr. Dan Roy (CIE Co-Director), Dr. Josh Daspit, and Dr. Rob Konopaske proposed the creation of the SCALEUP program.

The SCALEUP program (short for “Sustainable Cultivation and Advancement of Local Enterprises for Under-represented Populations”) was approved as a university-wide program in 2020 with the goal to develop evidence-based, proven tools that help minority businesses grow.

In the fall of 2021, Frost was the first financial supporter of the SCALEUP program with a gift that allowed 3 research fellows to begin investigating the challenges faced by minority-businesses in Texas.

This report provides an overview of the findings from this initial investigation.

Our Team

A multi-disciplinary team of faculty members and graduate students.



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\$6

**TRILLION ADDED
TO THE US ECONOMY**



MOBs in the US generate about \$2 trillion. If MOBs were at parity, sales would be about \$8 trillion.

**If minority businesses grew at the same rate as non-minority businesses,
over \$6 trillion would be added to the United States economy
and more than 21 million new jobs would be created³**

21

MILLION NEW JOBS



MOBs in the US have about 9 million employees.
If MOBs were at parity, about 30 million workers
would be employed.



**Given this potential impact,
why are minority businesses not
growing at the same rate
as non-minority businesses?**

Study Overview

OBJECTIVE

The objective of this study was to gain insight into why minority-owned businesses (MOBs) experience different levels of growth when compared to non-minority-owned businesses (non-MOBs).

MINORITY-OWNED BUSINESS

This study defines a minority-owned business (MOB) as a business with at least 51% of ownership held by a member or members of one or more of the following groups: Asian Pacific American, Black American, Hispanic American, Native American, American woman, and/or Service-Disabled Veteran with a service-related disability of 20% or greater. This aligns with the definition of a historically underutilized business (HUB) used by the State of Texas.⁴

SCOPE & METHOD

The research project included conducting surveys and interviews with small business leaders during the summer and fall of 2022. A sample of MOBs (with representatives from each respective group) was compared with a sample of non-MOBs. The online survey included 108 respondents (53 MOBs and 55 non-MOBs). Additionally, a total of 21 interviews were conducted. The average length of an interview was approximately 50 minutes. Interviews were conducted in-person, by phone, and online (via Zoom). Interview participants primarily included Hispanic business owners in Texas given that Hispanic MOBs represent the largest group of MOBs in Texas.

OVERALL DEMOGRAPHICS

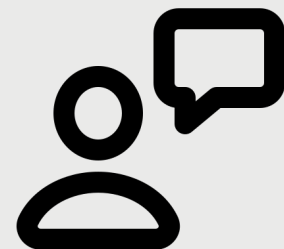


Survey Respondents

Age: 40 years old

Business experience: 19 years

Respondents: Comparison of MOBs and non-MOBs



Interview Respondents

Age: 44 years old

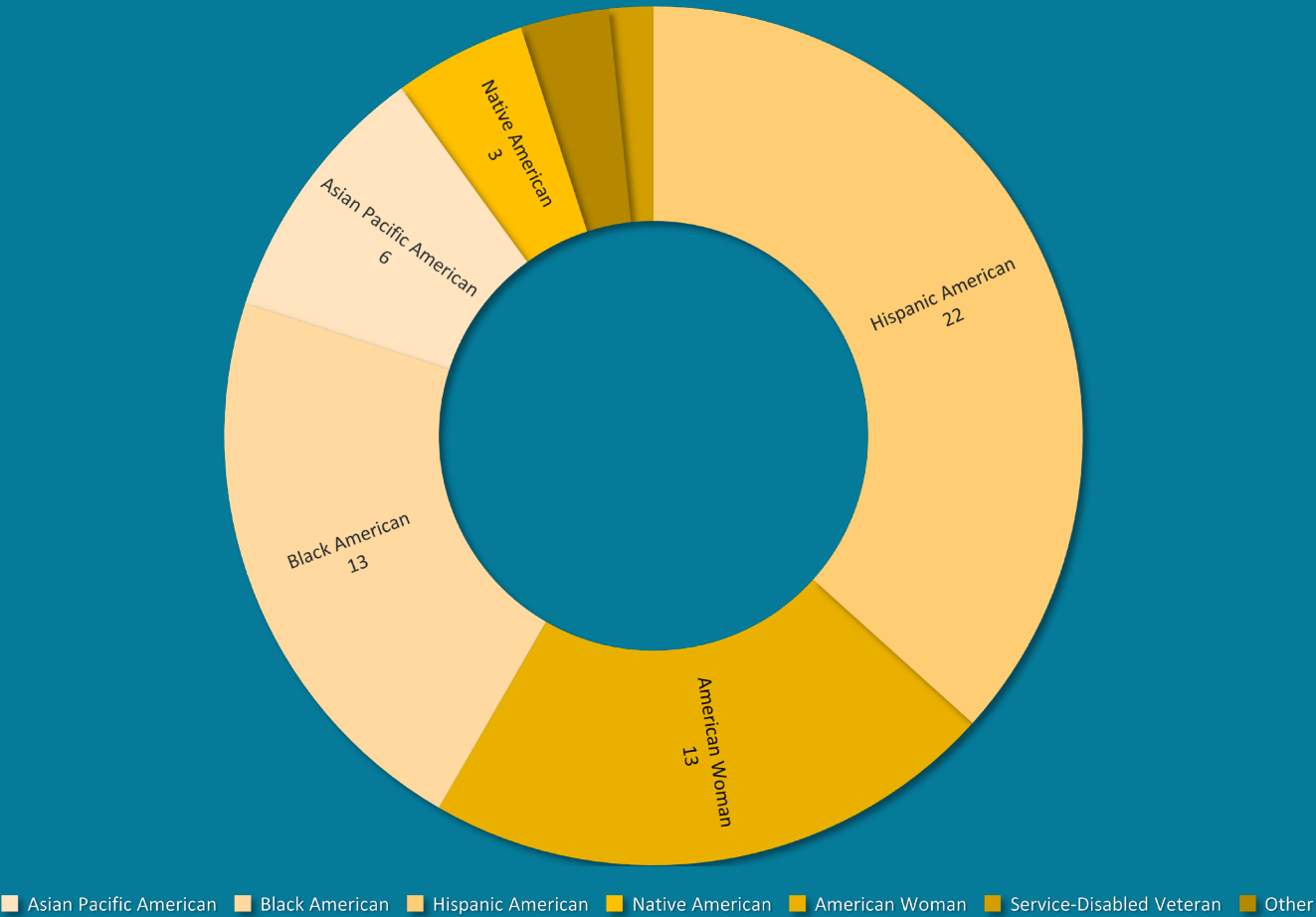
Business experience: 9.4 years

Respondents: 95% identified as Hispanic (Latino/Latina)

Demographics

Survey Respondents

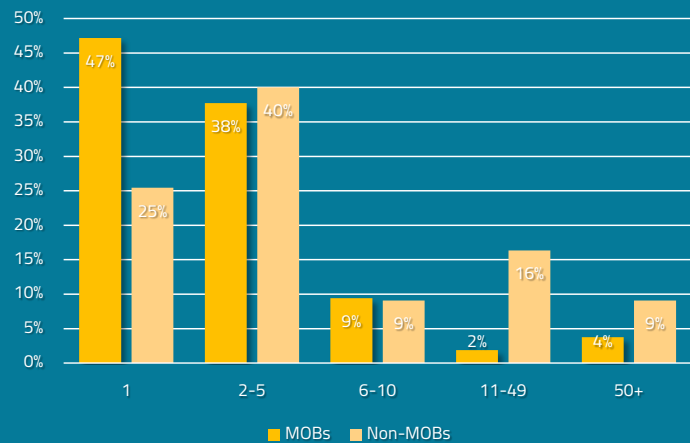
MOB Classifications (Number of Firms)



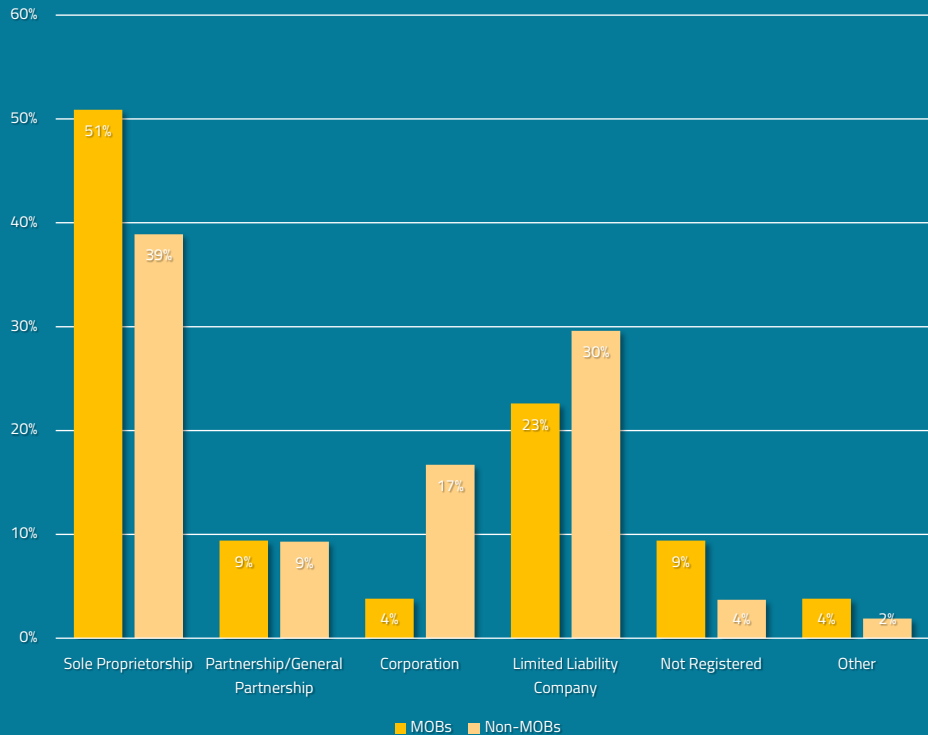
Demographics

Survey Respondents

Number of Employees



Business Type



STUDY FINDINGS

FINDING 1: OBSTACLES TO GROWTH



What are the top challenges?

Numerous prior studies have reported that, even though progress is being made, MOBs continue to face greater barriers to growth than non-MOBs.⁵ A key finding of this study is identifying the primary growth-related challenges faced by MOBs. Our findings show that the top 3 challenges MOBs face when growing include financing, external engagement, and growth strategies.

FINANCING

EXTERNAL ENGAGEMENT

GROWTH STRATEGIES

MOBs were asked about the challenges faced when growing. Of all the challenges reported, **obtaining a bank loan** and **obtaining the financing needed to grow** were the top “extremely difficult” challenges MOBs reported.

THE TOP OBSTACLES TO GROWTH

(REPORTED “EXTREMELY DIFFICULT” BY MOBs)

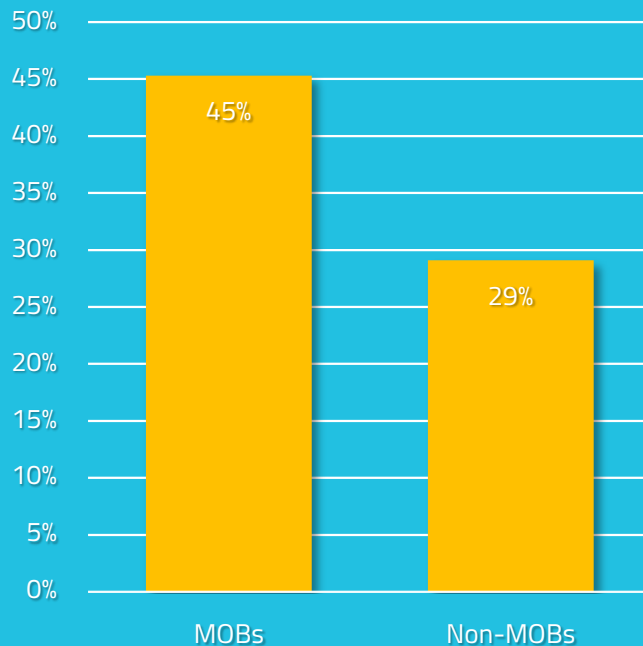
- Obtaining a bank loan (45%)
- Obtaining the financing needed to grow (43%)
- Finding new customers (26%)
- Obtaining financing from family/friends (25%)
- Knowing the best way(s) to grow (25%)

In Comparison:

Obtaining a bank loan was rated as “extremely difficult” by 45% of MOBs. Fewer than 30% of non-MOBs reported the same.



Obtaining a Bank Loan: Ratings as an “Extremely Difficult” Challenge



FINDING 1: OBSTACLES TO GROWTH



FINANCING

EXTERNAL ENGAGEMENT

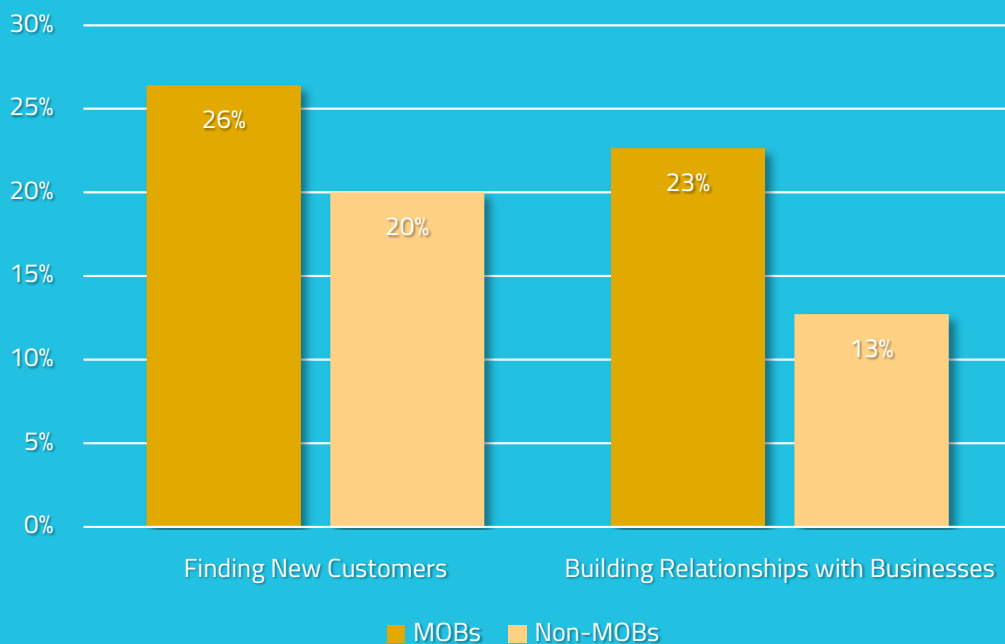
GROWTH STRATEGIES

Following financing, MOBs ranked **finding new customers** as an “extremely difficult” challenge for growth. **Building relationships with other businesses** was also rated as a top challenge faced.

In Comparison:

Both **finding new customers** and **building relationships with other firms** are “extremely difficult” challenges for a greater percentage of MOBs compared to non-MOBs.

External Engagement:
Ratings as an “Extremely Difficult” Challenge



FINDING 1: OBSTACLES TO GROWTH



FINANCING

EXTERNAL ENGAGEMENT

GROWTH STRATEGIES

The third most commonly reported “extremely difficult” challenge faced by MOBs relates to **growth strategies**. Specifically, these strategies include **knowing the best way(s) to grow** (25%), **hiring employees** (21%), **developing ideas on how to grow** (19%), and **developing a supply chain** (19%).

In Comparison:

A greater percentage of MOBs report experiencing “extremely difficult” challenges in more areas compared to non-MOBs. However, a few exceptions exist. For example, nearly 42% of non-MOBs report that **knowing the best way(s) to grow** is an “extremely difficult” challenge. Nearly 25% of MOBs report the same, which is a 17% difference.

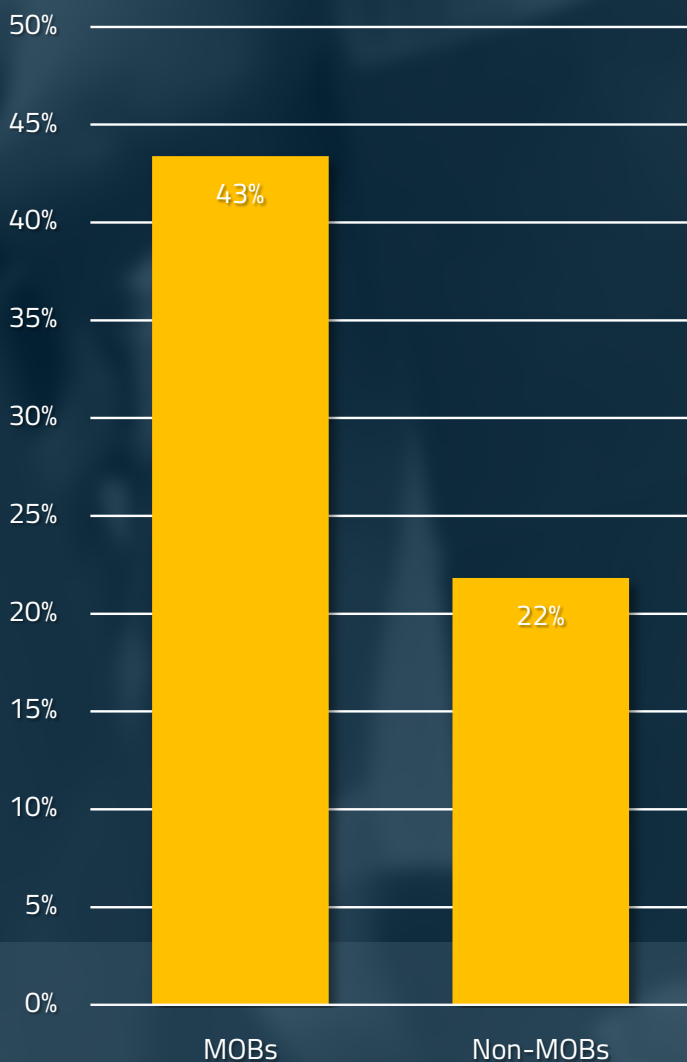


People seem to think that business owners have all the right answers. And we don't. That keeps me up at night. I'm the person who has to make the decisions and live with them. The more you can be involved with mentors, the better.

-Minority business owner in Dallas, Texas

FINDING 2: DIFFERENCES IN GROWTH-RELATED FINANCING

Financing decisions are some of the most challenging and problematic decisions for all small businesses.



Financing Firm Growth with Personal Credit Cards Carrying Balances

Our study of Texas-based entrepreneurs found that—for both MOBs and non-MOBs—the most common source of financing used for business growth is, by far, the **use of the owner's personal/family savings**. Given the average size of the firms studied, this is not uncommon.

While both groups are similar in the **use of personal/family savings** as the most popular means of financing firm growth, a notable difference exists in personal credit cards being used to finance growth. Specifically, when compared with non-MOBs, **nearly twice as many MOBs report using personal credit cards that carry balances to finance business growth**.

Although various reasons may exist for the greater **use of personal credit cards** among MOBs, the *2021 Small Business Credit Survey*, found that even when comparing businesses with good credit scores, Black-owned businesses were half as likely to receive the financing they sought when compared with white-owned firms.⁵

FINDING 3: CONFIDENCE IN BANKS

Confidence in Banks Differs

Although taking a business loan from a bank is generally a common source of funding for business growth, a discrepancy exists between MOBs and non-MOBs regarding this option.

Nearly 22% of non-MOBs have used a business loan from a bank or financial institution to expand or improve their business, compared to fewer than 10% of MOBs.

Findings from this study confirm that when compared with non-MOBs, **MOBs are less likely to have the experience of using a bank to obtain a business loan.** This aligns with prior research that finds MOBs are less likely to have a banking relationship.

When asked about why the business did not obtain a loan from a bank, more MOBs report having “a lack of confidence in the loan process” and “credit issues” compared to non-MOBs. Given that prior studies show unequal access to credit is received by minority business owners—even after accounting for creditworthiness⁶—we further investigated the levels of confidence held in banks.

To examine the confidence held in banks, survey respondents were asked to report their level of confidence in banking institutions. The findings show that a significant difference exists: **MOBs have a significantly lower level of confidence in banks compared to non-MOBs.** This difference exists even though both groups report a similar desire for business growth.



MOBs have significantly less confidence in banks compared to non-MOBs.



FINDING 3: CONFIDENCE IN BANKS

“There’s been a generational lack of trust and inclusion, particularly for people of color and the economically disadvantaged. Often, bankers aren’t necessarily from the same ethnic background as the community where the bank is located. This distrust of financial institutions has led to other people, such as predatory lenders, filling the gap because there will always be a need for people to access financial services.⁷”

What resources exist in a “perfect world”?

Training & Access

When MOBs were asked what resources would be available in a “perfect world” to support business growth, the majority of responses related to **training and access opportunities**. Examples include:

- Training on effective ways to network
- Training on developing business skills
- Easier access and guidance on financing options (e.g., grants, loans, alternative financing options)
- Access to industry leaders who can serve as mentors
- Greater access to technological resources

Local Bank Support

Additionally, MOBs were asked what type of support they would like from a local bank. Our findings show that **receiving better guidance on loan applications** was more frequently mentioned by MOBs than non-MOBs. Overall, responses include receiving educational, financial, and cultural support.

Educational Support

- Information on how to start and scale a small business
- Brief seminars on topics such as tax regulation, cash management, social media marketing, and human resources were noted as desirable

Financial Support

- Guidance and assistance on loan applications
- More flexibility in offering loans
- Lines of credit for business expansion and to support unexpected demand

Cultural Support

- Spanish-speaking loan associates
- Better understanding community-specific needs
- Programs targeted to specific groups



If I could have a bank worker walk me through the process of obtaining a bank loan, then I may use a loan in the future.

- Minority Business Owner



Trust and confidence must be earned in the marketplace, and it needs to be part of a financial firm's central business strategy.⁸

Methodology

The SCALEUP research team investigated the challenges faced by MOBs as they grow. The investigation included both surveys of and interviews with small businesses in Texas.

Surveys

An online survey was administered through the Qualtrics platform, which took respondents approximately 10 minutes to complete. The survey was conducted in collaboration with the Texas Association of Mexican American Chambers of Commerce (TAMACC) and the Greater New Braunfels Chamber of Commerce. Additionally, responses were collected via an online panel of entrepreneurs in Texas. One-hundred and ninety-two (192) respondents completed the panel survey. After examining all responses and eliminating those that did not align with the criteria of the study, the total sample size was 108, which includes 53 MOBs and 55 non-MOBs.

Descriptive statistics were assessed from the data to analyze the growth-related challenges and resources used for firm expansion. Additionally, Analysis of Variance (ANOVA) tests, which assess mean differences, were conducted

on the following variables: (1) desire to grow and (2) confidence in the bank. A chi-squared test was employed to determine whether businesses used a bank for the purpose of obtaining a business loan for firm growth. Further, a thematic analysis was conducted to analyze two open-ended questions: (1) why the business did not obtain a loan from a bank and (2) what a local bank could offer that would help support the growth of the business.

Interviews

In addition to the survey, the research team conducted a qualitative investigation that consisted of 21 semi-structured interviews with a convenience sample of Hispanic business owners in Texas. The interviews were conducted in-person, by phone, or via Zoom and lasted an average of 50 minutes. Two team members and one research assistant coded and analyzed the data with thematic analysis. The questions analyzed for this report related to prior challenges faced and resources relevant for future growth of the MOBs.

Acknowledgements

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