

Blacks/African Americans and Entrepreneurship

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GMAC® Research Reports • RR-05-05 • October 3, 2005

Introduction

The Graduate Management Admission Council® (GMAC®) has conducted several surveys—the mba.com Registrant Survey and the Global MBA® Graduate Survey—to identify minority motivations, expectations, aspirations, and behaviors. This paper provides a reanalysis of the combined data gathered from these surveys across five years to provide insight into the entrepreneurial career motivations and aspirations of African Americans to help schools and corporate recruiters better understand how to recruit and retain African American MBA students interested in entrepreneurship.

Economist Timothy Bates has found that small businesses are more likely to remain in business if a) the owner invests substantial amounts of financial capital at the point of business startup, b) the firm competes in the open marketplace, instead of catering to a minority clientele, and c) the owner has attained high levels of education (Bates, 1989).

Unfortunately, Bates also found that businesses owned by blacks/African Americans have lower capital inputs, a more heavy reliance on minority markets, and a lower proportion of owners with four plus years of college. Overall, these factors put black entrepreneurial endeavors at a disadvantage, which is corroborated by reports from the U.S. Census.

The U.S. Bureau of the Census reports that, in 1992, minorities owned 2,149,184 businesses that took in \$210 billion in receipts. About 48% of the firms were services, most commonly in the areas of health, business, and personal services. However, despite their large numbers, service firms owned by minorities took in only 27% of total receipts. In addition, black-owned businesses reportedly fail at a very high rate—30% within 3 years, 75% within 5 years, and 80% within 10 years.

Acquiring proper education and training, such as an MBA, is key for the success of entrepreneurs. Education and training not only provide business owners with the know-how necessary for running the business, but also opens doors for the acquisition of capital, which is essential for business investments. Fortunately, one of the fastest growing programs in colleges and universities today is entrepreneurship.

GMAC® Surveys

The objective of the mba.com Registrant Survey was to understand the characteristics and behavior of those in different stages of the decision-making process to pursue graduate management education. The sample selection was drawn from registrants of the GMAC® Web site, www.mba.com, who had expressed a willingness to participate in GMAC® research. These registrants were randomly drawn from a group that had registered between September 1, 2002 and September 1, 2003. A total of 10,029 people completed the survey, yielding a response rate of 27%. Seventy-one percent of the U.S. respondents were white, 13% were black/African American, 7% were Hispanic American, 7% were Asian American, and 1% were Native American Indian/Alaskan Native.

The objectives of the Global MBA® Graduate Surveys are to determine how students choose their schools, how they evaluate their educational experience, benefits of their degree, and aspects of their program, and how they choose their careers and jobs. In order to develop the sample for the survey, select accredited GMAT® schools were invited to participate. An average of 5,117 students (an average 29% response rate) representing 116 schools have participated in the last five years.

Methods

For topical questions scaled at nominal and ordinal levels, chi-square analysis is used to evaluate statistical significance in cross-classification tables ($p < 0.05$). That is, a relationship between a topical item and a classification item is considered statistically significant only when it could have been produced by chance less than 5% of the time. Whenever an interval level of measurement could be assumed, means are computed and analysis of variance is used to assess significance (also with $p < 0.05$). Post hoc Bonferroni tests are used in conjunction with analysis-of-variance for comparisons involving more than two subgroups (classification items or time). And exact tests are used in conjunction with chi-square analyses whenever chi-square assumptions could not be met.

Similar to the research conducted by the U.S. Census Bureau, GMAC[®] research shows a high tendency for African Americans to consider starting their own businesses. This paper examines this group's motivations, aspirations, and potential barriers. Through this understanding, school and corporate recruiters will be able to develop more informed recruitment and retention strategies targeted towards potential African American entrepreneurs.

Interest in Entrepreneurship

African American interest in entrepreneurship appears to begin at an early age. According to a youth study conducted by Walstad and Kourilsky (1998), the entrepreneurial aspirations of black/African American youth (age 14 to 19 years old) were significantly greater than those of white youth (75% of black/African American youths surveyed would want to start their own business, compared to 63% of white youths). Also, black/African American youths were significantly more

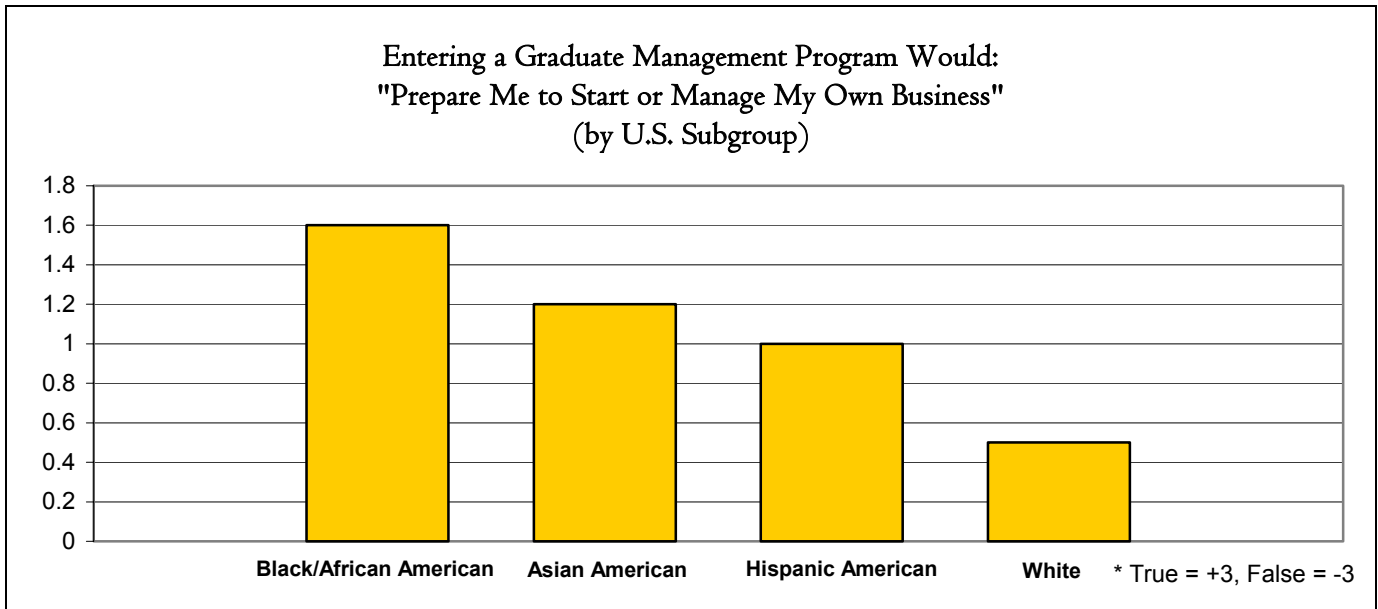
likely than white youths in this study to strongly agree that the reason people start a business of their own is because it allows you to:

- be your own boss (66% of black/African American youths versus 51% of white youths)
- build something for the family (66% versus 42%)
- earn lots of money (63% versus 41%)
- use your skills and abilities (50% versus 38%)
- overcome challenges (28% versus 18%)

This interest apparently carries over into adulthood. According to the U.S. Census (2002), among individuals 18-64 years old, the age where participation in the labor force is most expected, black/African American men and women are about 50% more likely to try to start a business than white men and women.

Additionally, among black/African American men and women, those reporting any graduate training are two to three times more likely to be involved in a firm start-up. Black/African American and Hispanic men with graduate experience are also at least twice as likely to be involved in firm start-ups as compared to white men with similar education (U.S. Census 2002).

This tendency is reflected in black/African American MBA students. Black/African Americans who participated in the GMAC[®] mba.com Registrants Survey 2003 (Edgington, 2003) cite the preparation to start or manage their own business as a reason for pursuing their graduate management degree higher than white ($X^2 = 0.000$; $df = 4,133$), Hispanic American ($X^2 = 0.000$; $df = 4,133$), and Asian American ($X^2 = 0.004$; $df = 4,133$) respondents.



The combined data from the GMAC® Global MBA® Graduate Surveys 2000-2005 found that significantly more black/African American students (40%) than Asian American (27%), white (22%), and Hispanic American (22%) respondents report preparation to pursue the goal of starting their own business as a way their graduate management degree will increase their career options ($X^2 = 0.000$; $df = 9,244$).

Perhaps not surprisingly, black/African American MBA alumni surveyed in the GMAC® MBA Alumni Perspectives Surveys were the most likely to report that their employment status after graduation was self-employed or a small business owner—16%, compared to 4% of Asian Americans, 5% of whites, and 4% of Hispanic Americans ($X^2 = .002$; $df = 6$).

Motivation to Start Own Businesses

What could be driving African American interest in entrepreneurship? In a two-year study published in *Children of the Dream, The Psychology of Black Success*, Audrey Edwards and Craig Polite write:

America's early black wealthy class were invariably entrepreneurs, and their enterprises were inevitably rooted in the delivery of vital services to the black community—the kind of services that the white community was either unable or unwilling to deliver to its black citizens. Early black fortunes, then, were built on such industries as insurance, undertaking, banking, media, and health and

beauty. In a segregated society where the majority race would neither insure, bury, lend money, portray fairly in the press, nor market health and grooming products to its minority population, these needs were quickly filled by enterprising black businessmen and women.

Melvin Gravely, in his article “When Black and White Make Green,” points out that black-owned businesses are much more likely to hire blacks/African Americans (85% more likely than their white counterparts) (Gravely 2004). And, as blacks/African Americans are still under-represented in the business world, this works to even the playing field by adding more blacks/African Americans to the workforce and potentially creating more successful black/African American entrepreneurs.

Perhaps another reason why black/African American MBAs lean toward entrepreneurship more than other subgroups is that black/African Americans feel that respect and recognition are more attainable in a business of their own making, as opposed to a white-managed firm or corporation. According to the GMAC® mba.com Registrants Follow-up Survey (Schoenfeld & Edgington, 2004), blacks/African American respondents were the most likely to state that the specific event that prompted their application to an MBA program was that they did not get the respect at work that they deserved—12% of black/African Americans reported this, in comparison to 5% of

Hispanic Americans, 3% of Asian Americans, and 2% of whites ($X^2 = .003$; $df = 60$).

According to the GMAC® mba.com Registrants Survey (Edgington, 2003), blacks/African Americans were more likely than any other U.S. subgroup to consider the “glass ceiling” to be “very real” in business, law, medicine, science, and engineering. This perception persists, in spite of the fact that 58% of respondents to the GMAC® Corporate Recruiters Survey 2003-04 (Edgington, 2004) confirmed that their companies have diversity recruiting initiatives based on race/ethnicity. This suggests a possible disconnect between corporate diversity initiatives on the front end and later career development of minorities on the job.

Author and entrepreneur Robert Wallace (2000) asserts there is a glass ceiling for minorities in most American corporations that blacks/African Americans cannot get past. He says, “Even those who make it to executive heights are usually placed in highly visible jobs, such as human resources and public relations, but are restricted from entering positions that lead to powerful, top-level responsibilities.”

The existence of a glass ceiling and potential discriminating factors for upward mobility to top-level responsibilities may motivate African Americans to be their own boss, but before they make that transition, the availability of financial resources makes an impact on their success. The availability of financial resources affects both the ability to finance an education and the ability to finance a business, two of the three factors indicated by the U.S. Census Bureau as determinants of potential success.

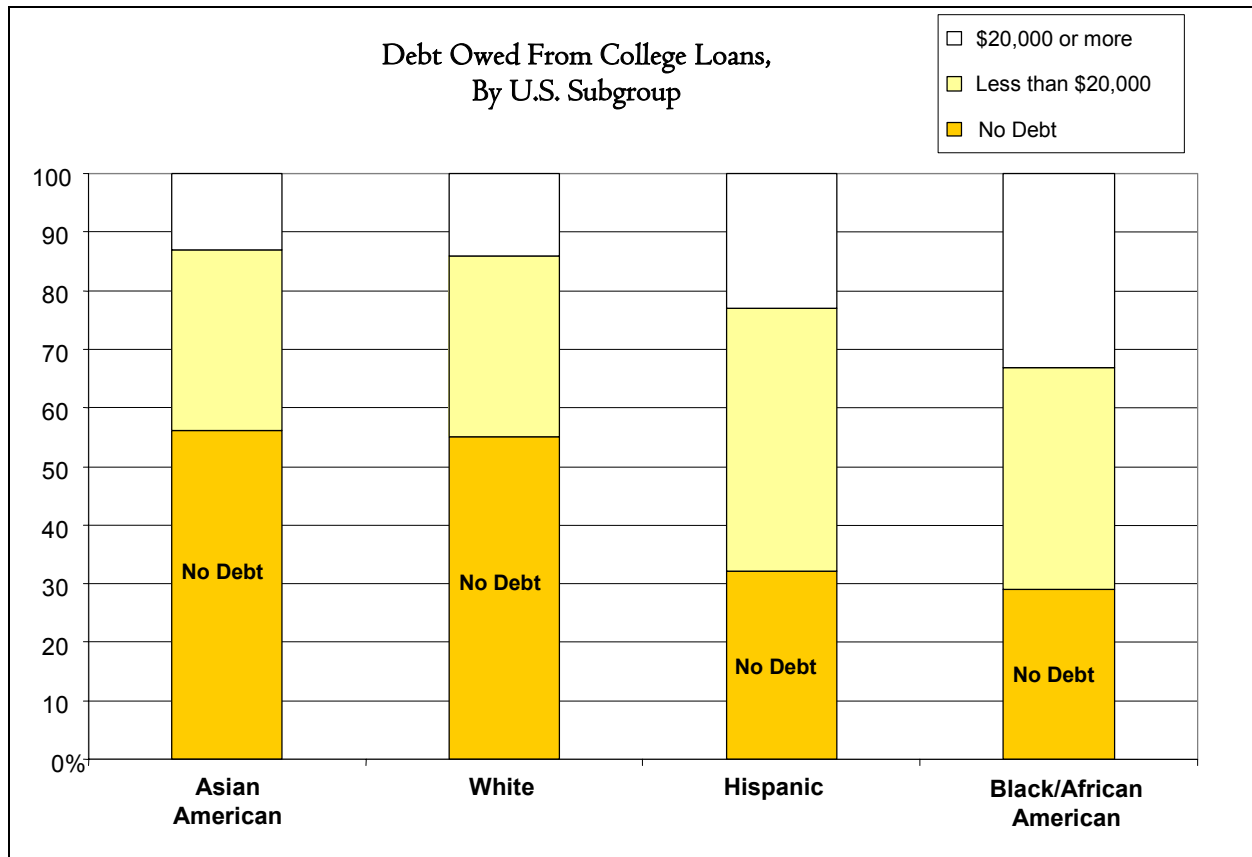
Financial Resources

Financial concerns may deter many prospective students from applying to graduate management programs.

Among mba.com registrants surveyed, two-thirds of blacks/African Americans (67%) who have decided not to attend graduate business school state that it would require more money than they are willing to invest, which is higher than for other U.S. subgroups. Additionally, Asian American, black/African American, and Hispanic American respondents were more likely than white respondents to indicate that entering a graduate management program would possibly require them to take on large financial debts ($X^2 = 0.000$; $df = 4,133$).

Prospective students’ abilities (both perceived and actual) to finance their graduate management education is critical in their decisions to pursue it. Forty-six percent of the mba.com Registrants Survey respondents who felt it would be difficult to be admitted into graduate business school cited their financial resources as a potential barrier. It is, therefore, important to understand prospective students’ financial concerns—how much debt they are already carrying and how they plan to finance their graduate education—and learn how these concerns vary according to U.S. subgroup.

Mba.com Registrants Survey respondents who had completed an undergraduate or first degree program were asked to indicate how much debt they owed from previous education (undergraduate or other graduate). The amount of debt owed was significantly different by U.S. subgroup ($X^2 = .000$; $df = 12$). Black/African American respondents (71%) and Hispanic American respondents (68%) were more likely to report having debt than white (45%) and Asian American respondents (44%). Also, blacks/African Americans were more likely than other U.S. subgroups to have \$20,000 or more debt. Hispanic Americans were more likely than Asian Americans and whites to have \$20,000 or more debt.



Additionally, as prospective students, black/African American respondents were more likely than other U.S. subgroups to indicate that grants, fellowships, scholarships, or government benefits would be a source of financing—70% compared with 59% of Hispanic American respondents, 42% of white respondents, and 51% of Asian American respondents ($X^2 = 0.000$; $df = 3,584$).

The reliance on grants is especially noteworthy because grants are the most uncertain source for financing a graduate management education, and the inability to obtain expected grants may lead to decisions not to pursue graduate management education. From past survey research on MBA graduates—the Global MBA® Graduate Survey 2003—it was found that the amount of financial aid extended was significantly more important to blacks/African American and Hispanic American respondents in deciding which school to attend ($X^2 = 0.000$; $df = 7,660$).

Beyond the initial educational investment, fulfilling the dream of entrepreneurship also requires startup capital.

Only in the last thirty years have government guaranteed loans become available for prospective African-American entrepreneurs. These guarantees induced many banks to extend business loans, which did spur African American enrollment in college business programs (Reynolds et al, 2000). However, according to Rhodes and Butler (2004), “Black firms faced their greatest discrimination from banks, except when minority-owned financial institutions competed for black American clientele.”

Because blacks/African Americans may have fewer financial resources and greater debt, discrimination by banks for starting entrepreneurs can have a crippling effect. Many black communities just do not have the resources to provide sufficient assistance to small businesses (Butler & Greene, 1997). As a result, black/African American aspiring entrepreneurs may be forced to use personal savings, borrow money from friends and relatives, or give up their entrepreneurial plans (Rhodes and Butler, 2004).

Many programs for minority entrepreneurs do exist, however. The Minority Business Development Agency (MBDA), under the Department of Commerce, offers minority entrepreneurs services, such as access to financing, marketplace, education, and technology. MBDA provides a network of minority business development centers and business resource centers where minority business owners can go for help in writing business plans, marketing, management, and technical assistance. MBDA also allows minority businesses access to their database of minority business enterprises, providing them networking and business contacts (MBDA, 2005).

The Small Business Administration (SBA) provides an array of services for small businesses and start-off businesses. As a higher percentage of African American entrepreneurs own and operate smaller businesses than their white counterparts, the SBA can be a particularly helpful resource for African American entrepreneurs. Also, the SBA offers a proportion of government contracts and sales to registered SBA firms. Like MBDA, SBA offers management, technical, and business assistance to small businesses. Plus, SBA has an Equal Opportunity Loan (EOL) program that provides relaxed credit and collateral requirements for applicants who live below the poverty level (SBA, 2005).

A possible alliance between SBA, MBDA, and other such programs might be of benefit to aspiring black/African American entrepreneurs, as well as to the programs themselves, as they work together toward a common goal of aiding and developing successful small and minority-owned businesses.

Discussion

However, access to financial resources and education alone do not necessarily make a successful entrepreneur. The curriculum, and whether it is applicable for starting business owners, also may affect their ultimate success.

MBA programs should recognize the unique position of aspiring black/African American entrepreneurs and the benefits and barriers that they are confronted with in the business world and tailor programs to meet their specific needs. Case studies and texts used in MBA programs should be examined closely to be sure they include business cases that look at black/African

American businesses or small start-up businesses. A balanced set of case studies and business approaches needs to be implemented into MBA curriculum so that prospective black/African American entrepreneurs are adequately prepared for their endeavors.

Diversifying the traditional curriculum in graduate management programs with targeted case studies for aspiring African American entrepreneurs could be helpful for all students in the programs, given the growing interest in the general business community for more culturally sensitive business professionals to target the growing minority populations and global business enterprises that make up today's marketplace.

Furthermore, MBA students have listed a culturally diverse faculty and student population within a program as a measure of potential fit within that program. Minority respondents to the Global MBA[®] Graduate Survey 2004 (Edgington, 2004) cite the importance of diverse faculty and students in their school of choice ($X^2 = 0.000$; $df = 7,760$). Of the respondents, 47% of whites, 58% of African-Americans, 65% of Hispanic Americans, and 66% of Asians listed faculty and student diversity as either extremely or very important. Therefore, schools intent on attracting black/African American students to graduate management programs might be more successful in their recruitment if they could advertise the programs' diversity and curriculum as it relates to minority populations, and, particularly for African American prospective students, the curriculum (and success of alumni) as it relates to entrepreneurial efforts.

Corporate recruiters interested in attracting and retaining black/African American MBA graduates might benefit from information gathered regarding the potential existence of a "glass ceiling" within their organizations. Identifying and eliminating possible limitations, such as stagnation within highly visible positions lacking opportunity for growth into areas of high responsibility, might encourage more African Americans with an entrepreneurial spirit to work within their companies. The challenge for business owners intent on hiring talented African Americans and other minorities is to provide an environment in which all employees are given equal opportunity for personal and professional growth and respect.

Contact Information

For questions or comments regarding study findings, methodology or data, please contact the GMAC® Research and Development department at research@gmac.com.

Acknowledgements

Veronica Garcia, Research Writer/Editor, GMAC®, writing and editorial services.

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