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## Examining Inclusive Growth: Minority-Owned Firms in the Cleveland-Elyria MSA Brief

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# EXAMINING INCLUSIVE GROWTH

## Minority-Owned Firms in the Cleveland-Elyria MSA



This report provides insight on minority business ownership in the 5-county Cleveland-Elyria Metropolitan Statistical Area (Cleveland MSA)<sup>1</sup> using data from the 2007 and 2012 U.S. Census Bureau Survey of Business Owners. Minority-owned businesses in the Cleveland MSA represented 20% of all firms in 2012. The majority of these firms, 71%, were owned by African American entrepreneurs (24,618), while 14% (4,959 firms) were Asian-owned. Overall, Asian firms have higher combined sales than African American firms (\$1.9 billion versus \$972 million); resulting in higher sales per firm. Targeted public policies assisting in revenue generation in the African American business community can increase wealth and economic inclusion.

### TRENDS IN THE CLEVELAND-ELYRIA MSA

Owning a business is an exciting step for entrepreneurs; however, many remain self-employed as sole-proprietors and do not add employees. Entrepreneurship can be a robust mechanism for job creation, and public policies can target how to help entrepreneurs move from being self-employed to becoming an employer. For example, if public policies can help the nearly 24,000 African American firms in the Cleveland MSA who do not have paid employees add just one person to their payrolls, the total regional unemployment rate would decrease from 4.8% to 1.8%.<sup>2</sup>



If the nearly 24,000 African American-owned firms in the Cleveland MSA who do not have employees add just one person to their payrolls, it will decrease the unemployment rate from 4.8% to 1.8%.

Sources: Center for Economic Development; U.S. Bureau of Labor

### TOP INDUSTRIES OF MINORITY-OWNED BUSINESSES IN THE CLEVELAND-ELYRIA MSA



In the Cleveland MSA, African Americans are about five times more likely to own a firm than Asians, but Asian-owned firms are more likely to have paid employees (1,953 employed by Asian-owned firms versus 822 by African American-owned firms) and higher revenues. However, upon examining firms with paid employees, African American-owned and Asian-owned firms have a similar amount of total payroll and payroll per employee; indicating that the main difference between these groups is the performance of sole-proprietors. Both African American and Asian businesses with the largest number of firms concentrated in the industries of Health Care and Social Assistance, and Other Services.

### MINORITY-OWNED BUSINESSES IN THE CLEVELAND-ELYRIA MSA

	ALL MINORITY-OWNED	AFRICAN AMERICAN	ASIAN	OTHER MINORITIES
Firms	34,574	24,618	4,959	2,565
Sales	\$4.1B	\$1.3B	\$2.1B	\$239M
Sales/Firm	\$118,297	\$52,807	\$413,390	\$93,110

- Other Minorities includes: American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and Some Other Race.
- Data does not add up to totals consistently due to data suppression and survey response rate.

<sup>1</sup>The Cleveland-Elyria MSA (Cleveland MSA) is a 5-County area that includes Cuyahoga, Geauga, Lake, Lorain, and Medina counties.

<sup>2</sup>Calculations are based on U.S. Bureau of Labor Statistics data.

The recession of 2009 led many businesses to close nationwide. To understand the recession's impact on minority-owned businesses, we examined the percentage of minority-owned businesses from 2007 to 2012. The Cleveland MSA increased in the percentage of minority-owned firms, from 13% to 19% during this period. This upward trend is similar to that of the state of Ohio and the United States, which both observed an increase in the percentage of minority-owned firms to overall firms. Ohio saw a 5% increase in minority owned-firms, while the United States experienced an 8% overall increase.

It is important to note that although the Cleveland MSA and the United States contain similar shares of minority population (24% in the Cleveland MSA for 2012 versus 22% in the United States), the rate of business ownership is vastly different with 19% minority business ownership in the Cleveland MSA compared to 29% in the United States. This trend indicates that economic development and public policy in the Cleveland region should continue to focus on attracting, retaining, creating, and growing minority businesses to become competitive.

### PERCENTAGE OF MINORITY-OWNED FIRMS IN THE CLEVELAND-ELYRIA MSA, OHIO, & U.S.



### MINORITY-OWNED BUSINESSES IN THE CLEVELAND-ELYRIA MSA

		ALL MINORITY-OWNED	AFRICAN AMERICAN	ASIAN	OTHER MINORITIES
<b>Sole-proprietor</b>	Firms	31,337	23,796	3,006	2,353
	Sales	\$669M	\$390M	\$149M	\$42M
	Sales/Firm	\$21,362	\$16,404	\$49,440	\$17,986
<b>Firms with Employees</b>	Firms	3,237	822	1,953	212
	Sales	\$3.4B	\$973M	\$1.9B	\$248M
	Sales/Firm	\$1.1M	\$1.2M	\$1.0M	\$1.2M
	Employed	32,397	10,387	13,116	4,129
	Annual Payroll	\$781M	\$257M	\$347M	\$80M
	Payroll/Employee	\$24,100	\$24,787	\$26,442	\$19,465

- Other Minorities includes: American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and Some Other Race.
- Data does not add up to totals consistently due to data suppression and survey response rate.

### AN INCLUSIVE ECONOMY

An inclusive economy is a key to creating equitable opportunities for all in the economy. According to the Brookings Institution, the Cleveland MSA ranked 83 out of 100 for inclusion by race index for 2016-17.<sup>3</sup> Their metrics included changes in the difference

between whites and people of color for the median earnings gap, poverty gap, and employment rate gap, showing that any efforts made in the region to increase minority entrepreneurship were not enough to narrow the existing gap between whites and people of color.

To promote minority entrepreneurship, exploring start-up financing is crucial. Many traditional businesses finance their startups through loans from their family, friends, or a home equity loan.<sup>4</sup> However, there are significant wealth, credit, and capital gaps in the United States between races; specifically, African-American households who, on average, possess one-tenth the median net worth of white households.<sup>5</sup> This, coupled with the fact that homeownership is 26% less in these communities, they are more likely to be rejected for a business loan, and if approved they will receive a smaller loan amount than their white peers.<sup>6</sup> This sobering reality creates significant barriers to accessing capital for business formation.

### SOURCES OF FINANCING FOR SMALL BUSINESSES



## ASSISTING MINORITY-OWNED STARTUPS

The Cleveland MSA region has made strides toward assisting minority businesses in providing startup help and finding capital. The Urban League of Cleveland houses a Small Business Development Center and an \$8 million Capital Access Fund directed at providing minority business owners access to capital and pre- and post-loan counseling. Other non-profits such as the Economic and Community Development Institute, JumpStart Inc., and Operation Hope provide targeted programming for minority businesses to foster startups, facilitate networks, and increase capital flows.

Data shows that the wealth disparity in the Cleveland MSA between whites and people of color is widening – it is estimated that the median earnings gap is \$3,894. If policy can focus on increasing wages and creating wealth in minority communities, the traditional and non-traditional mechanisms of business finance will have a chance ■

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## POLICIES FOR INCREASING WAGES AND CREATING WEALTH IN MINORITY COMMUNITIES WILL BOOST CHANCES FOR THE TRADITIONAL & NON-TRADITIONAL MECHANISMS OF BUSINESS FINANCE

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### TAKEAWAYS

- Barriers to financial and social capital make it difficult for minority-owned businesses to grow and expand. An inclusive economy is essential in utilizing the full potential of a region. When minorities have equal access to capital, it is beneficial for the whole region.
- Minority-owned firms comprise almost 35,000 firms in the Cleveland MSA, accounting for over \$4 billion in sales and over 32,000 employees.
- Targeted programming by non-profit organizations fosters favorable conditions for minority entrepreneurs to establish startups, form networks, and have higher capital flows.
- If the nearly 24,000 African American firms in the Cleveland MSA who do not have employees add just one person to their payrolls, it will decrease the unemployment rate from 4.8% to 1.8%.
- The wealth disparity in the Cleveland MSA between whites and people of color is widening – it is estimated that the median earnings gap is \$3,894.



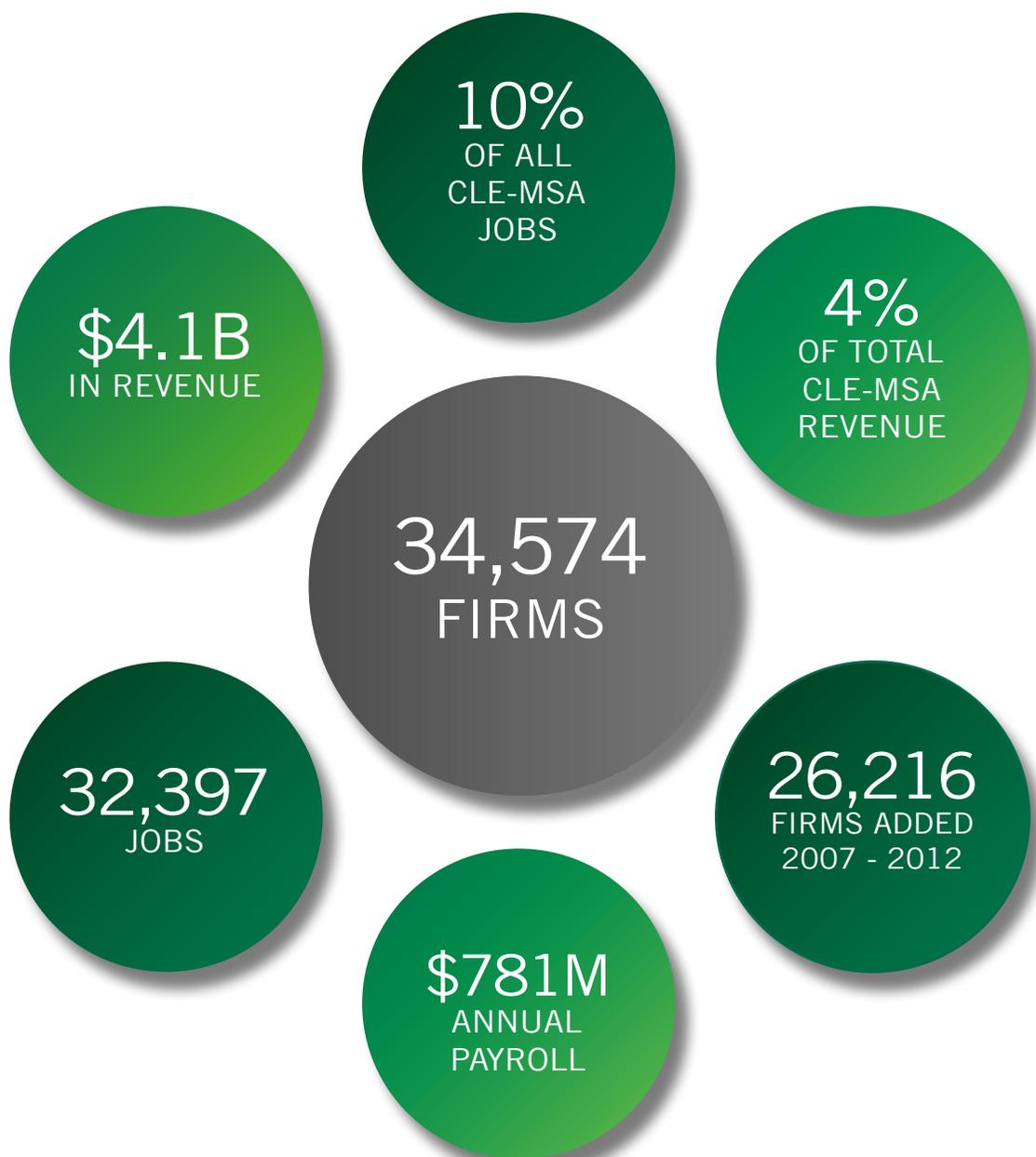
<sup>3</sup>Berube, A., Shah, I., Friedhoff, A., & Shearer, C. (2019, March 21). Metro Monitor 2019: Inclusion remains elusive amid widespread metro growth and rising prosperity. The Brookings Institution.

<sup>4</sup>Piazza, M., Austrian, Z., Lendel, I., Alexander, S., Cyran, E., Hoover, D., & Leach, R. (2016). High-Growth Firms: Delineating Definitions, Industries, and Business Cycle Performance. Urban Publications. [https://engagedscholarship.csuohio.edu/urban\\_facpub/1369](https://engagedscholarship.csuohio.edu/urban_facpub/1369)

<sup>5</sup>Wylie, M. (2019, Jan. 8) Places Where Minority Entrepreneurs are Succeeding. LendingTree

<sup>6</sup>Association for Enterprise Opportunity (2017). The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success.

## MINORITY-OWNED BUSINESSES IN THE CLEVELAND-ELYRIA MSA



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