

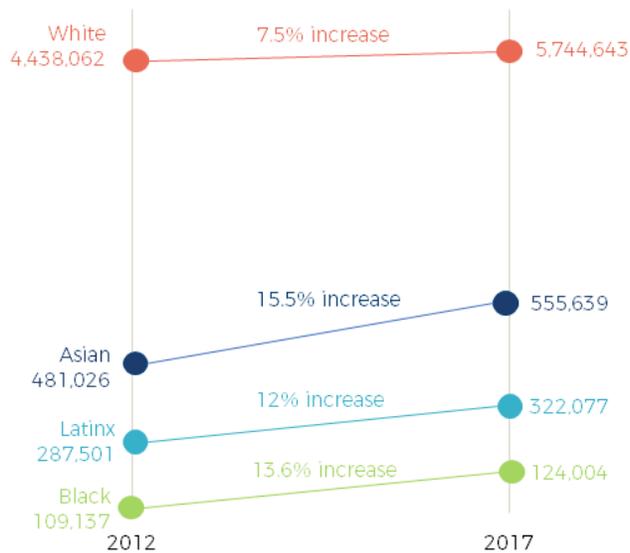
# THE ROAD TO ECONOMIC RECOVERY

## Minority Business Enterprises: Our Key to an Equitable Recovery

Promoting and sustaining entrepreneurs of color is a critical element of an equitable economic recovery for the Commonwealth. Minority business enterprises (MBEs) play a substantial role in sustaining local ecosystems, neighborhoods, and regions. With revenue, job creation, and interests in real estate, MBEs are the lifeline for many throughout the Commonwealth. While the racial wealth gap in Greater Boston preceded the coronavirus pandemic, racial inequities are exacerbated by the pandemic and economic shutdown. To close the racial wealth gap and create an equitable future, MBEs must survive and thrive.

### Minority Business Enterprises Through the Years

Figure 1: Nationwide Change in Business Ownership by Race (2012-2017)



Over the last 25 years there has been slow progress toward increasing the proportion of new businesses started by Black, Asian, and Latinx entrepreneurs. Between 1996 and 2019, Black entrepreneurs nationwide increased from 8.4 percent of all business founders to 10.1 percent, while the share of Asian entrepreneurs increased from 5.5 percent to 7 percent, and the share of Latino entrepreneurs more than doubled from 10 percent to 22.8 percent.<sup>1</sup>

Since the Great Recession ended, the number of minority-owned businesses with paid employees nationwide increased – encompassing businesses founded, purchased, and inherited – but at a slower rate than before the recession. As shown in Figure 1, between 2012 and 2017 the total number of Black-owned businesses nationwide increased by 13.6 percent. The number of Asian-owned businesses increased 15.5 percent and Latinx-owned businesses

increased 12 percent. By comparison, over the same time the number of White-owned firms increased 7.5 percent.<sup>2</sup>

While there was progress toward increasing the diversity of entrepreneurs and business owners, there is still more work to be done. As shown in Figure 2, in Massachusetts in 2017, Black individuals comprise 7.5 percent of the population but, in contrast, just 1.3 percent of business owners and a mere 0.3 percent of total business revenue. Similarly, the state’s Latinx community accounts for 11.6 percent of the population, but just two percent of business owners and one percent of total business revenue.<sup>3</sup>

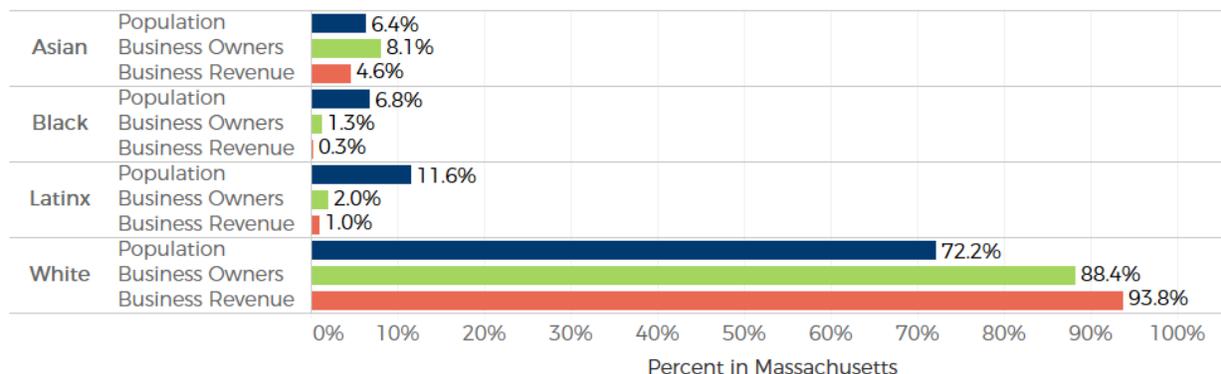
<sup>1</sup> Ewing Marion Kauffman Foundation, 2020, [Who is the Entrepreneur? Race and Ethnicity, Age, and Immigration Trends Among New Entrepreneurs in the United States, 1996-2019](#).

<sup>2</sup> U.S. Census Bureau, *Survey of Business Owners and Self-Employed Persons, 2012*; U.S. Census Bureau, *Annual Business Survey, 2017*.

<sup>3</sup> U.S. Census Bureau, 2014-2018 American Community Survey 5-Year Estimates; U.S. Census Bureau, *Annual Business Survey, 2017*.

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Figure 2: Massachusetts Share of Population, Business Owners, and Business Revenue by Race and Ethnicity (2017)



## Risks For Minority Business Enterprises

Importantly, as the economy shifts to recovery from the COVID recession, there are several risks that threaten to undermine the already limited progress made in the growth of minority business enterprises. Many MBEs are small businesses, MBEs are concentrated in less profitable industries, and recessions can dampen entrepreneurship.

Over 99 percent of Black-owned businesses are small, making them particularly vulnerable to the economic repercussions of the pandemic.<sup>4</sup> Because small businesses typically operate with less capital, they are more likely to go out of business when faced with economic pressures. And while remote work has skyrocketed during the economic shutdown, most small businesses still rely on employees commuting to work: 51.4 percent of small businesses in Massachusetts do not have employees that work from home.<sup>5</sup> The reliance on in-person work and services will continue to be a risk for these small businesses until there is widespread vaccination.

The industry composition of Black-owned businesses is also important to consider. Two-thirds of all Black-owned businesses nationwide are concentrated in just five industries: health care and social assistance (32 percent); professional, scientific, and technical services (13.2 percent); administrative/support and waste management and remediation services (8.2 percent); retail trade (7.1 percent); and other services (6.7 percent).<sup>6</sup> Except for retail trade, these five industries generated less revenue than all other industries on average prior to the pandemic, accounting for only 29 percent of nationwide business revenue.<sup>7</sup>

Many of the businesses within these five industries rely on in-person services. As a result, the businesses in these industries – except for professional, scientific, and technical services – are unable to work remotely at rates higher than the national average.<sup>8</sup> Coupled with comparatively low revenue, businesses in these industries were severely impacted during the stay-at-home order and economic shutdown and will continue to feel the pressure stemming from less revenue potential, building and business closures, and fewer in-person customers.

<sup>4</sup> U.S. Census Bureau, *Annual Business Survey*, 2017. Small businesses are defined as having fewer than 500 employees.

<sup>5</sup> U.S. Census Bureau, *Small Business Pulse Survey*, Week of November 16-22.

<sup>6</sup> U.S. Census Bureau, *Annual Business Survey*, 2017.

<sup>7</sup> U.S. Census Bureau, *Annual Business Survey*, 2017.

<sup>8</sup> U.S. Census Bureau, *Small Business Pulse Survey*, Week of November 16-22.

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Exacerbating these threats is that a lagging economy – much like the current one – threatens to hinder entrepreneurship. The Great Recession demonstrated that a sustained period of economic slowdown can negatively impact business ownership and creation for years to come. In 2006, the year prior to the recession's start, 567,000 new firms were created nationwide. The rate of new businesses started dropped precipitously throughout the recession, bottoming out at 373,000 annually, a decline of approximately 34 percent. Most problematic is that new firm creation still has not fully returned to the 2006 apex: in 2018, entrepreneurs created only three-quarters of the number of businesses they created in 2006.<sup>9</sup>

## Recommendations

### Create Opportunities for MBE Contracting

The state government annually procures tens of millions in contracts, and it can leverage this power to develop businesses of color by committing to MBE contracts.

The Governor's supplier diversity proposal S.2937, *An Act to Elevate the Supplier Diversity Office to Ensure Equal Opportunity in Contracting*, makes several changes that elevate the Supplier Diversity Office (SDO). SDO would be a standalone office within the Executive Office for Administration and Finance rather than falling under the Operational Services Division as it does now. With this change, the SDO can require all agencies to provide data, act as a liaison to every secretariat and agency within state government, and oversee a new compliance unit with the potential to suspend procurement authority for agencies not complying with requirements.

This change to SDO is a good step, and the state's commitment can be strengthened by adding flexibility to the insurance requirements for state contracts. Since disparities exist in businesses accessing capital, stringent insurance requirements can be a deterrent for some minority business enterprises. The state can address insurance requirements in different ways. It can give the SDO the authority to lower insurance thresholds for a specific contract opportunity or the state can adjust the insurance threshold requirement for specific industries. Doing so would allow more businesses of color to submit applications, bids, or RFPs.

The private sector also has a role to play. Companies procure millions in goods and services each year, and 25 of Boston's largest companies have already committed to increasing how much they spend with MBEs on an annual basis through the Chamber's [Pacesetters](#) program. The commitment from both the private and public sectors – the Commonwealth and the City of Boston are also part of the Pacesetters program – can impact both business growth and new business creation for entrepreneurs of color.

### Reduce Barriers of Entry to Business Ownership and Entrepreneurship

#### *Update Personal Income Tax Conformity*

States, including Massachusetts, conform to the federal tax code, meaning they align with definitions, income calculations, deductions, and other aspects of the federal code. Doing so makes compliance easier for taxpayers. Massachusetts aligns with the personal income tax code that was in effect on January 1, 2005 – an important fact because the vast majority of small businesses and MBEs are structured so they pay taxes under the individual income tax rather than the corporate income

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<sup>9</sup> U.S. Census Bureau, *Business Dynamics Statistics*, 2018. Note: The total number of new businesses created in 2018 was 431,000.

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tax.<sup>10</sup> Furthermore, Massachusetts is an outlier: it is the only state not to update its conformity with the IRC within the last six years.<sup>11</sup>

Updating the state's personal income tax conformity reduces compliance burdens for small businesses and MBEs because the vast majority are structured as sole proprietors and pass-through entities like S corporations and partnerships.

## *Eliminate Onerous Occupational Licensing Requirements*

Onerous occupational licensing requirements, especially for positions without formal education or experience requirements, are a burden for entrepreneurs and job seekers alike. Changing the state's occupational licensure laws and regulations can improve equitable access to entrepreneurial opportunity.

For example, Massachusetts requires two years of experience as a requirement for licensing Pesticide Handlers/Applicators but most other states have no prerequisites. Another example is that for a Cosmetologist Type 1 License, which is equivalent to a manager level position, the state requires minimum training plus two years of work experience at a lower grade license. By contrast, an EMT license requires minimum training, but no work experience.

The state should assess the education and training standards for individual licenses to determine if the benefits of licensure and associated requirements outweigh the costs to access, complete, and maintain those requirements. The state should also determine if fees can be reduced or eliminated and consider facilitating license reciprocity with other states, or even other countries, for select occupations.

## *Reduce LLC and LLP Fees*

Another barrier to entry for MBEs are the fees for filing with the state a certificate of organization (\$500) and statutorily required annual reports (\$500). Limited liability company (LLC) and limited liability partnership (LLP) filing fees in Massachusetts are some of the highest in the country and exceed the fees businesses structured as corporations pay. The state has rightly recognized that keeping corporate registration fees low prevents an unnecessary barrier to entry, and new businesses structured as LLCs or LLPs should be treated similarly.

## Ongoing Reporting of State Contracts and Procurement

The recent changes to the Supplier Diversity Reporting announced by the Baker-Polito Administration lay the groundwork for improved reporting. As a part of this reporting, equity and diversity goals should be publicly stated and reported on, with consistent definitions and standards. Accurately measuring state spending with diverse businesses allows both the state and MBEs to identify opportunities for growth and the types of businesses that could be developed to compete for more contracts.

### Methodology Note

*This brief uses nationwide data, as opposed to Massachusetts data, when comparing changes in entrepreneurship over time due to the high relative standard errors in state level data which makes such comparisons unreliable.*

<sup>10</sup> U.S. Census Bureau, *Statistics of U.S. Small Businesses Annual Data Tables by Establishment*, 2017.

<sup>11</sup> Tax Foundation, [Toward a State of Conformity: State Tax Codes a Year After Federal Tax Reform](#), 2019.