

## Economic Disparities Among Small Business Owners in Small-Town America

Shivang Giri

### Abstract

“The land of equal opportunity,” a minority entrepreneur describes what she had always pictured the United States to be. After struggling to obtain a business loan, she says that her business is finally starting to see some success. Hundreds of thousands of entrepreneurs have similar dreams of owning a successful business, but over 60% of female and minority small business owners struggle to do so, per a 2023 Bankrate report [2]. In this study, 25 small businesses in Hillsborough, New Jersey, responded to a survey confirming similar national trends among entrepreneurs. These results, representative of 25% of Hillsborough’s small businesses, indicated that female and minority-owned businesses face greater difficulty obtaining financial assistance and managing their business along with personal responsibilities. Furthermore, Hillsborough was chosen due to its upper-middle-class characteristics, thus making the study’s results applicable across similar towns in the United States. The paper concludes by analyzing potential solutions to these disparities.

### Key Terms

**Economics:** Study of how resources are allocated and managed among small businesses, specifically focusing on the financial challenges faced by female and minority entrepreneurs in Hillsborough, New Jersey, and their implications on access to loans, business outcomes, and overall economic disparities.

**Small Business:** Businesses with gross revenues that do not exceed \$3 million.

**Minority:** A person whose race or ethnicity is a non-dominant race within the group.

**Gender:** Sex assigned at birth.

### Introduction

The landscape of small businesses in the United States is marked by significant disparities, particularly concerning minority-owned and female-owned businesses [4]. This paper explores the disparities faced by these two groups of business owners, focusing on access to finances, innovation, persistence intentions, and overall business outcomes. Drawing from a variety of sources, including empirical studies and surveys, this review sheds light on the challenges and implications of these disparities.

Despite recent improvements in access to loans and capital for female small business owners, Capital One’s Small Business Index reports that “18% of women owners say being female makes it more difficult to raise capital for their businesses,” and this “number rises to 32% when it comes to minority women.” [5] These results further demonstrate female small business owners’ obstacles. The Senate Committee on Small Business and Entrepreneurship further demonstrates disparities between male-owned and female-owned businesses. Recent data published by the Senate Committee on Small Business and Entrepreneurship has repeatedly shown that female-owned businesses are more likely to report reduced profits compared to their male counterparts, exhibiting another disparity [6].

Access to loans also remains a challenge for minority-owned businesses. According to Intuit Quickbooks, “57% of Black respondents indicate that they were denied a bank loan at least once when they started their businesses—compared to 37% of non-Black business owners” [9]. Additionally, Black business owners indicated higher costs for starting their business compared to their non-Black counterparts. Similar trends persist among other minority business owners. Stanford University recently reported that despite Latino-owned small businesses having higher revenues and similar credit scores, they have significantly lower approval rates for loans above \$50,000, further exhibiting disparities in accessing credit [8].

Moreover, minority-owned businesses have reported greater challenges following the COVID-19 pandemic. According to the Brookings Institution, 92% and 85% of African-American owners and Hispanic Americans reported financial problems with their small businesses in 2020, respectively. 79% of White-owned businesses, however, reported similar problems, highlighting another disparity [7].

The Small Business Administration (SBA) reports that in New Jersey, women own 39.6% of small businesses and 21.7% of minorities own small businesses. Small businesses in New Jersey are crucial to its economy, accounting for 49.5% of the state’s employment. Disparities, however, continue to persist among women and minority-owned businesses [10]. According to the Federal Reserve Bank in Philadelphia, minority-owned businesses reported decreases in revenue between 2019 and 2020 and 58% of Black-owned businesses reported not receiving Paycheck Protection Program (PPP) funding [12]. This study further shows that national disparities exist in New Jersey.

Papers by researchers also highlight similar trends. For example, researchers Robert W. Fairlie and Alicia M. Robb estimate that female-owned businesses’ profits are roughly 80% lower than male-owned ones, citing both human and financial capital. Another study further confirms similar results [11]. University of Kansas researcher Elizabeth Asiedu points out that out of female small business owners, minorities had higher loan rejection rates despite having an income, net worth, and purpose [1].

## Methods

Using a small business directory released by Hillsborough Township, 25 small businesses were surveyed. The University of Vermont’s small business survey for Newport, VT was first identified as a similar survey that could be used in Hillsborough [13]. This thirty-two-question survey, open for public use, measures business owners’ satisfaction with both their business and the economy, needs, gender, and race. In the adapted survey, business owners were asked about their race and gender, with the goal of identifying whether these factors influence business owners’ current success and mindset. The survey focuses on business owners’ satisfaction with their revenue and profits, views on the economy, past experiences obtaining business loans/relief, and willingness to participate in professional development programs.

The majority of these surveys were conducted through five-minute phone calls with business owners. These businesses were located through Hillsborough’s small business owner directory and appointments were scheduled with their owners. All of the businesses in Hillsborough’s small business directory were contacted through email or phone call [3]. Out of the twenty-five surveys conducted, three took place in person, four through email, and the rest through phone calls.



## Findings

Out of the 25 businesses surveyed, 36% were owned by females and 64% were owned by males. 88% of these businesses were started from scratch, while the remaining 12% were either purchased from previous owners or run by past family members. Furthermore, 28% of the businesses were restaurants, while the rest were service-based or retail centers. 40% of the business owners belonged to minority groups.

The results confirmed the hypothesis despite slightly different percentages than national studies. Some female business owners expressed dissatisfaction with their revenue and profits, citing challenges in obtaining business loans and a lack of knowledge about professional development programs. Interestingly, the vast majority of business owners (76%) indicated that they had never participated in a professional development program, with time constraints being the primary obstacle. Additionally, over 60% of female business owners reported that it was “difficult” to manage their business along with personal responsibilities.

Moreover, regardless of the gender or race of the business owner, the majority (72%) reported having no confidence in the economy.

## Conclusion

This study highlights persistent disparities faced by small business owners in Hillsborough, New Jersey, reflecting broader national trends. Female and minority-owned businesses in Hillsborough encounter obstacles in accessing financing, mirroring the challenges reported across the United States. Female entrepreneurs, particularly minority women, face difficulties raising capital. Minority-owned businesses contend with higher loan rejection rates and increased startup costs.

To address these issues, policymakers should consider legislation that promotes equitable access to loans. Furthermore, expanding financial literacy and professional development programs, especially among underrepresented groups, is a key move that the collected data suggests should be made. Targeted financial support programs, such as grants and subsidies, can alleviate the financial burdens faced by minority-owned businesses during crises.

While this study offers valuable insights, it has limitations, including a small sample size and a focus on a single suburban area. Future research should be on a larger scale and should include a more diverse range of locations and industries for greater inclusivity. Addressing these disparities is vital for creating an equitable environment for small businesses, empowering entrepreneurs, and fostering economic growth in communities.



## Works Cited

1. Asiedu, Elizabeth, et al. "Access to Credit by Small Businesses: How Relevant Are Race, Ethnicity, and Gender?" *American Economic Review*, [www.aeaweb.org/articles?id=10.1257%2Faer.102.3.532](http://www.aeaweb.org/articles?id=10.1257%2Faer.102.3.532).
2. Haughn, Raija. "Guide for Women Entrepreneurs." *Bankrate*, [www.bankrate.com/loans/small-business/closing-the-gap-how-to-overcome-obstacles-as-a-female-entrepreneur/#challenges](http://www.bankrate.com/loans/small-business/closing-the-gap-how-to-overcome-obstacles-as-a-female-entrepreneur/#challenges).
3. "Hillsborough Business Association." *Hillsborough New Jersey*, 23 Aug. 2023, [www.hillsborough-nj.org/resident/hillsborough-business-association](http://www.hillsborough-nj.org/resident/hillsborough-business-association).
4. Read, Lauren Helena. "The Financing of Small Business: A Comparative Study of Male and Female Small Business Owners." *Routledge & CRC Press*, Routledge, 1 Apr. 1998, [www.routledge.com/The-Financing-of-Small-Business-A-Comparative-Study-of-Male-and-Female/Read/p/book/9780415169561](http://www.routledge.com/The-Financing-of-Small-Business-A-Comparative-Study-of-Male-and-Female/Read/p/book/9780415169561).
5. "Women Securing Capital." *Capital One*, Capital One, 26 Oct. 2023, [www.capitalone.com/about/newsroom/do-women-have-harder-time-securing-capital/](http://www.capitalone.com/about/newsroom/do-women-have-harder-time-securing-capital/).
6. *U.S. Committee on Small Business & Entrepreneurship*, [www.sbc.senate.gov/public/](http://www.sbc.senate.gov/public/).
7. Molly E. Reynolds, Adrianna Pita, and Valerie Wirtschafter. "Black-Owned Businesses in U.S. Cities: The Challenges, Solutions, and Opportunities for Prosperity." *Brookings*, 25 June 2023, [www.brookings.edu/articles/black-owned-businesses-in-u-s-cities-the-challenges-solutions-and-opportunities-for-prosperity/](http://www.brookings.edu/articles/black-owned-businesses-in-u-s-cities-the-challenges-solutions-and-opportunities-for-prosperity/).
8. Orozco, Marlene, et al. "2021 State of Latino Entrepreneurship." *Stanford Graduate School of Business*, 1 Jan. 2022, [www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2021](http://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2021).
9. "Black History Month Survey: Legacy and Community Prevail against Social and Economic Inequalities." *QuickBooks*, 6 Feb. 2023, [quickbooks.intuit.com/r/small-business-data/black-history-month-survey-2023/](http://quickbooks.intuit.com/r/small-business-data/black-history-month-survey-2023/).
10. *SBA's Office of Advocacy – SBA's Office of Advocacy*, [advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-US.pdf](http://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-US.pdf).
11. Fairlie, Robert W., and Alicia M. Robb. "Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States." *MIT Press*, The MIT Press, 11 July 2008, [direct.mit.edu/books/book/2508/Race-and-Entrepreneurial-SuccessBlack-Asian-and](http://direct.mit.edu/books/book/2508/Race-and-Entrepreneurial-SuccessBlack-Asian-and).
12. *Small Business Credit Survey - Philadelphiafed.Org*, [www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/sbcs-report-philadelphia.pdf](http://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/sbcs-report-philadelphia.pdf).
13. *Newport Business Operators Survey - Community Economic Development*, [economicdevelopment.extension.wisc.edu/files/2015/08/Business\\_Survey\\_Example\\_NewportVT.pdf](http://economicdevelopment.extension.wisc.edu/files/2015/08/Business_Survey_Example_NewportVT.pdf).