

13.4: The Challenging Truth about Business Ownership

LEARNING OBJECTIVES

By the end of this section, you will be able to:

- Explain the pros and cons of business ownership before you launch
- Understand current trends in entrepreneurship in the US
- Determine the challenges women face in entrepreneurship and what resources they can use to overcome them
- Determine the challenges minority entrepreneurs face and resources available for them

People usually have different reasons for starting a business. Some of the reasons—other than the idea they’ve hit upon—include the freedom to set their own hours, spend more time with family, be their own boss, and make money. However, in many cases, they will probably work more than planned, be challenged to find the work-life balance, face fears and doubts, and perhaps struggle to make ends meet for the first few months or years. Prior to launch, they will need the support of family, friends, and mentors to understand the limitations of time and the pressures they face.

Pros and Cons of Business Ownership

Table 13.4.1 lists the positives and negatives that should be considered prior to opening a business and throughout its operation. Positives of entrepreneurship include having the freedom and independence to expand your skills and develop your own ideas. Instead of working for another organization on projects and ideas that are not your own, you get to serve people in a way that feels right for you. You also have the opportunity to make a profit and have a better lifestyle. Having the freedom to set your own schedule and work at your own pace can be very satisfying as well.

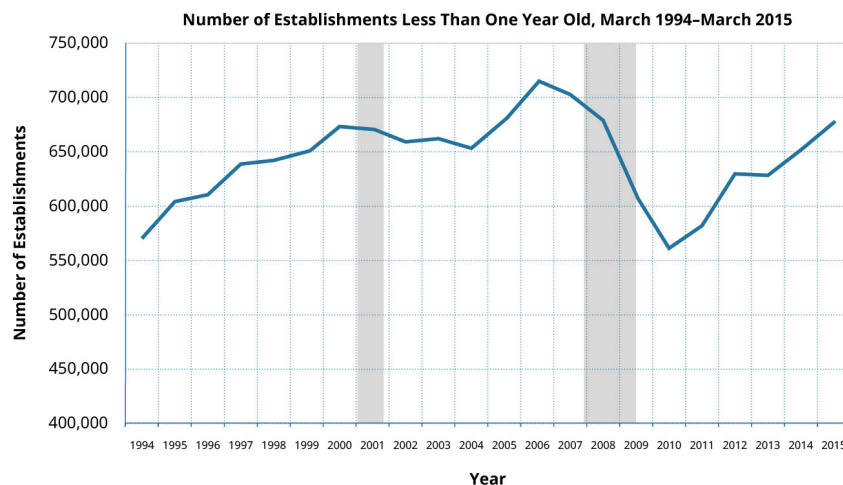
On the opposite side, those “freedoms” translate into being in charge of the business and the significant responsibility that entails. You must resolve issues that arise every day, such as dealing with employees, customers, production, marketing, and financing, among others. Most of the time, you wear many hats, especially during the venture’s early lifecycle stages, and most entrepreneurs usually work more hours than anticipated. In addition, you must deal with losses and risk if things don’t go well. The important thing to keep in mind is that all of the negative aspects have solutions and can even be prevented if planning, mentorship, and a good support system are in place, which can alleviate many of the stresses that entrepreneurs experience. Also, having attainable goals in creating awareness of the business, number of clients, and sales or profit can be beneficial in alleviating some of that pressure.

Table 13.4.1: Pros and Cons of Business Ownership

Pros	Cons
<ul style="list-style-type: none">• Being autonomous, being your own boss, expanding ideas, enjoying creative freedom• Lifestyle, making your own schedule, flexibility• Satisfied with career• Serving customers and employees• Profit• Being known in the community	<ul style="list-style-type: none">• Being in charge, resolving issues, hiring/firing employees, and wearing many hats• Dealing with stress, time constraints, and management• Lack of focus, loss of passion• Customer and employee complaints• Money/cash flow problems• Must deal with losses and financial risk

Entrepreneurship and Competition in the US

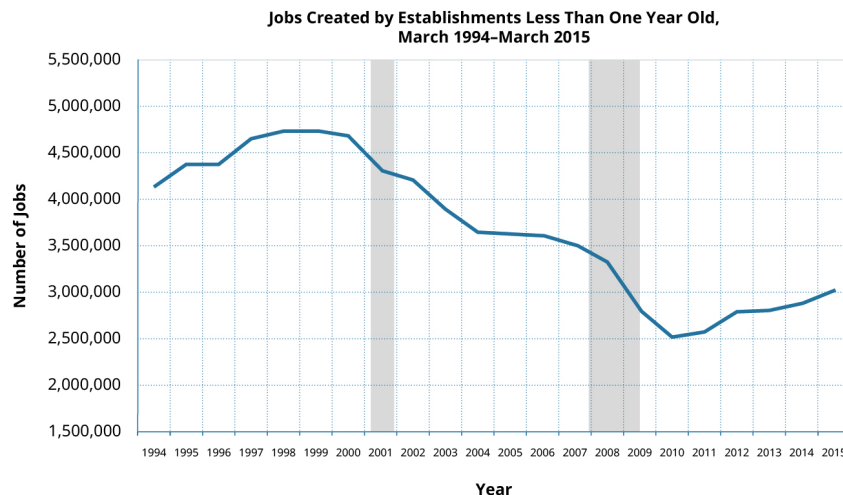
Entrepreneurs operate in an unbelievably competitive landscape. Although competition helps create better products and services, it also places many stresses on a business owner who must compete with new, more flexible businesses that may have lower prices and better products. As shown in Figure 13.4.1, the number of new establishments that are less than one year old has increased over the past two decades from 1994 to 2015. There was a dip during the 2009 recession, but the trend continued after 2011, and the number of businesses increased again. This means more competition for businesses that are already established.



Source: "Chart 1. Number of Establishments Less Than 1 Year Old, March 1994–March 2015." Entrepreneurship and the U.S. Economy. Business Employment Dynamics. United States Department of Labor. April 28, 2016.

Figure 13.4.1: The number of new businesses usually rises and falls with the economy. This graph shows that the number of new establishments has risen in recent years.³⁹ (CC BY 4.0; Rice University & OpenStax)

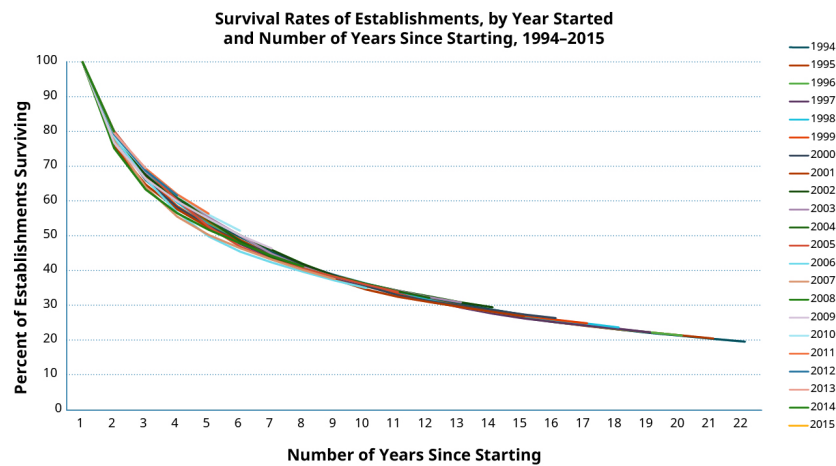
The number of jobs created by these young establishments has also decreased in this period, which affirms the likelihood that entrepreneurs are wearing many hats in their own businesses. Figure 13.4.2 charts this trend.



Source: "Chart 2. Jobs Created by Establishments Less Than 1 Year Old, March 1994–March 2015." Entrepreneurship and the U.S. Economy. Business Employment Dynamics. United States Department of Labor. April 28, 2016.

Figure 13.4.2: While the number of new business establishments has risen, the number of jobs and the survival of businesses (following) have decreased during the same period.⁴⁰ (CC BY 4.0; Rice University & OpenStax)

As you've learned, only about 20–30 percent of businesses succeed to the five- or ten-year mark. Figure 13.4.3 shows that only half of businesses survive to the five-year mark, and only 20 percent are sustained for two decades. Their failures may be due to a number of factors such as cash flow problems, lack of passion, lack of support, lack of innovation, difficulty adapting to new technologies or customer demand, and environmental factors that can influence a business as well, such as the economy, trends, regulations, or sociocultural changes. Therefore, it's important for entrepreneurs to research their internal as well as their external environments before launching.



Source: "Chart 3. Survival Rates of Establishments, by Year Started and Number of Years Since Starting, 1994–2015, in Percent." Entrepreneurship and the U.S. Economy. Business Employment Dynamics. United States Department of Labor. April 28, 2016.

Figure 13.4.3: Survival rates of businesses from 1994–2015. This graph shows that as years go by, fewer businesses stay open.⁴¹ (CC BY 4.0; Rice University & OpenStax)

Challenges of Business Ownership for Women

Challenges for business owners can be many. Female entrepreneurs, however, can face additional hardships. These can range from not being able to secure financing for their businesses, having a hard time breaking into an industry, and dealing with fears of starting and growing a business, and not being taken seriously.

Current research shows that the importance of female entrepreneurship is key to economic success. Women own 40 percent of the country's businesses,⁴² generating over \$1.4 trillion in sales.⁴³ Women entrepreneurs are closing the gender gap, as their ventures have grown substantially in the past few years. In the past two years, women entrepreneurship rates have gone up by 10 percent each year, compared to men's 5 percent growth. This surge has been spurred by increased available resources, including mentorship, funding, and programs to help women succeed.⁴⁴ Nonetheless, there are still great challenges to overcome, as women move into the next generation of business ownership. Some of the main challenges are:

- *Difficulty gaining entry in certain industries.* Women have made great strides in business, but they still face many obstacles, especially in certain industries. Women tend to be underrepresented in specific areas, notably in the tech industry, where they run only 9 percent of businesses.⁴⁵ Women tend to be underpaid in tech positions, they experience sexism, and they are often passed over for promotions, especially if they have families with young children. So, if there are no female role models, it is difficult for women to follow an entrepreneurial path that is already full of obstacles. Although young girls and women desire to study and expand their careers, historically, they have not been presented with the opportunities and encouragement to do so, especially in STEM. By the time they get into college, the number of women in these careers—which can be rich in entrepreneurial opportunities—is very small. However, more efforts are being made today to support young girls interested in scientific, technological, and mathematical careers.
- *Lower sales and fewer employees.* Women overall tend to struggle more to keep their businesses afloat, as they have fewer employees,⁴⁶ less revenue, and less profit than male-owned businesses. Only 2 percent of female-owned businesses make over \$1 million in sales. Male-owned businesses, on the other hand, are 3.5 times more likely to hit that revenue target.⁴⁷ Some of the reasons why women experience this is because women may enter entrepreneurship part-time, often striving to sustain a decent family work balance, which is difficult when children, especially young children, are part of the equation. This set-up usually includes one employee, who is the entrepreneur herself, and she may have attained her goals without wanting to make millions. Time, flexibility, and work-life balance can be reasons women become entrepreneurs, and they are happy with their goals of making some money while taking care of their family and household. Lack of experience in business or managing a family business, and lack of access to capital are also reasons for the lower metrics.⁴⁸
- *Less access to capital.* Regardless of their success and prowess, women still have a harder time securing funding for their businesses. A recent Kauffman Foundation survey determined that more than 72 percent of women don't have the access to capital they need.⁴⁹ Nirupama Mallavarupu, founder of MobileArq says, "As a woman entrepreneur with a focus on helping non-profits and schools, it has been difficult to get investors. We have turned this around by pursuing customer acquisition organically and relying on direct revenues instead of investment growth."⁵⁰ Women usually don't ask for funding, or if they do

but are turned down, they turn to funding from family and friends. They are more likely to finance their ventures this way than men.⁵¹

- *Not taken seriously.* Sometimes it's not that women don't have the opportunities, money, or mentorships to start a business: Sometimes, women are just not taken seriously. Research by Freshbooks Accounting and Software firm and Research Now asked 2,700 entrepreneurs about gender discrimination and the wage gap that exist today. Thirty percent of women pointed out that they are not taken seriously as business owners, as they must work harder than their male counterparts and have to charge less to get a client.⁵² Emily Harsh, owner of Heart Move Collective, comments in her blog, "Because I am in the fitness industry and female, I am often not taken seriously as a professional. I think the number one most important thing you can do as a woman fighting to pave your own path is to continually stay authentic."⁵³
- *Resources.* Fortunately, there are many resources that women can take advantage of. Organizations such as the Women's Business Center of the Small Business Administration, the National Association for Women Owners, the Female Entrepreneur Association, Ladies Who Launch, Minority Business Development Agency, the National Association of Professional Women, and the Women's Business Enterprise National Council strive to help women succeed in all industries by providing loans and programs that prepare them for a competitive landscape. Mentoring by other women has also proven to be effective in women's success in entrepreneurship.⁵⁴ Having peers that can help and strong mentors can make a difference in the outcome of a business.

Other helpful tips to counteract the challenges facing women entrepreneurs include being assertive, being authentic, networking, and developing a thick skin for rejections and other challenges. Facebook COO Sheryl Sandberg, in her book *Lean In*, states that "being confident and believing in your own self-worth is necessary to achieving your potential" and she encourages women entrepreneurs to ask themselves: "What would you do if you weren't afraid?"⁵⁵

Women bring great qualities to entrepreneurship such as strong leadership, as well as management, time, multitasking, and listening skills. Women also have a collaborative approach to relationships that works well in many industries.⁵⁶

Challenges of Business Ownership for Minorities

Entrepreneurs from minority groups encounter additional challenges. Minority groups are a strong force in the economy of the country, yet they still experience additional challenges that sometimes prevent them from succeeding in their businesses. These can range from having lower capital access⁵⁷ due to little credit history, small or nonexistent business networks, and lower business knowledge.⁵⁸ According to the Census Bureau, minorities own about 29 percent of US businesses.⁵⁹

Hispanics⁶⁰ comprise 17 percent of the population and own approximately four million (13%) companies in the US with \$661 billion in revenue. From 2007 to 2015, business revenue grew 88 percent for Hispanics, which means that they have more power to employ more people to provide goods and services to a wider audience, and to purchase from other vendors. Given its growth and current size, this group is vital to the health of the economy.⁶¹ Unfortunately, research shows that if measured by financial outcomes, Hispanics still struggle to succeed in business ventures due to a lack of funding, less managerial/business education, and lack of mentorship.⁶² A higher rate of foreign-born entrepreneurs can experience these challenges due to the lack of networks and financial history in the country.⁶³

African Americans make up 14 percent of the total US population, and their businesses represent about 7 percent of total businesses. Although they are opening businesses faster than their Caucasian counterparts, their businesses, as well as Hispanic businesses, tend to have higher failure rates than Caucasian- and Asian-owned businesses.⁶⁴ Similar to Hispanics, African Americans tend to lack funding, managerial/business education, and mentorship.

Asian Americans make up 5 percent of the population and own just over 4 percent of the businesses in the country. Although they are considered minorities, Asian Americans tend to be better educated and have more access to capital than Hispanic Americans and African Americans.⁶⁵

Organizations such as the Hispanic, Black, and Asian American Chambers, the Minority Business and Development Agency (MBDA), and the Small Business Administration (SBA) have developed programs to help minority entrepreneurs succeed in various ways. These organizations hold workshops once or twice a month to provide helpful information and business plan templates so owners work through their preparation to launch a venture. Chambers are also helpful in matching companies with banks for loans based on their needs and industries. The 8a certification is also facilitated by the Chambers and the MBDA, and provides disadvantaged businesses with an assistance program.

LINK TO LEARNING

Go to the [MBDA's page on the 8\(a\) Business Development Program](#) and read about the requirements and benefits of 8a certification. You can also see that the MBDA offers access to grant and loan programs, and many other helpful resources.

Disadvantaged businesses are those that are small, owned by someone economically disadvantaged (a person who has less than \$250,000 in personal net worth, which includes assets such as cash, home, car, and real estate minus liabilities such as mortgages, credit card debt, and car and bank loans), with an owner demonstrating that the business can be successful. This program helps minority business owners access finances, mentors, counselors, and management assistance, among other resources.⁶⁶ In addition to this support, some organizations, such as the SBA, provide certifications on various business topics on marketing, finance, accounting, management, and production that usually take the form of short classes for business owners to acquire business acumen. These programs help entrepreneurs gain needed knowledge, grow professionally, and connect with people as they go through their entrepreneurial journeys.

LINK TO LEARNING

Go to the [US Department of Labor's blog post on women business owners](#) and look at some of the facts listed about women business owners. Which ones surprised you the most?

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