Economic and Strategic Analysis of Minority Entrepreneurs in Omaha, Nebraska

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Economic and Strategic Analysis of Minority Entrepreneurs in Omaha, Nebraska

By

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Abstract

Few resources of published studies exist identifying the needs or motivational factors that would assist minority business owners (MBOs) in Omaha, NE wishing to open a new business venture. Although MBOs have accounted for significant growth in the United States, there is not a lot of information available about how they access capital and resources to launch and grow their businesses. Findings show that MBOs continue to experience high barriers trying to find basic resources. There is evidence that proves the persistence of low minority business ownership rates and the survival of existing minority businesses is affected by social norms, legislation, and opportunities to establish connections. In order to better understand and support MBOs in the Omaha community, it would be helpful to identify the main factors that drive entrepreneurship, motivate entrepreneurs, and minimize constraints.
**Why Do Entrepreneurs Take Great risks?**

Why do entrepreneurs do what they do and take such great risks to launch a business? It might not seem clear what the main drivers of innovation and motivation for entrepreneurs might be. It could be monetary benefits, competition, adventure or joy of creation. A recent article by Forbes suggests that financial gains are not a sufficient explanation for entrepreneurs taking great risks to start their business (Gaskell, A., 2019). From a classical risk-reward perspective, it is simply not worth being an entrepreneur for the monetary part of it. But, the fact that entrepreneurs continue to take extraordinary risks for small expected returns suggest that something else is balancing the scales.

There are general main conditions that are conducive to individuals starting new firms, while others have conditions that deter entry as supported by entrepreneurial theories. This paper looks at general conditions and then compares them with minority business owners' needs. This paper would allow us to better understand why some conditions might be applicable to minority entrepreneurs to launch and operate a business while others might prevent entry. National and local communities benefit from the introduction of new business ventures. New businesses not only provide economic benefits, but also provide social changes. Omaha in the last few years has seen an increase in minority business owners and it would be important to continue to provide the resources and tools needed to become an entrepreneur. It is important for Omaha to take a look at minority entrepreneurs to not only increase economic growth, but also improve social mobility and stimulate changes in minority communities. Findings will serve as a resource for readers to learn more about what Omaha is doing to promote entrepreneurship in minority communities. It could also inform entrepreneurs in Omaha about resources or initiatives available to them.
Who Becomes an Entrepreneur?

The idea of nature versus nurture aspect behind entrepreneurship to determine who becomes a successful entrepreneur has attracted the attention of many scholars. Many believe that successful entrepreneurs are born attributed to personality and aptitude traits. While others support the idea of entrepreneurs' success coming from learning new traits, having a mentor, or some type of network they could turn to for advice. The right answer is up for debate but there is no question that entrepreneurs need a support system to help them navigate the challenges posed by economic, social, political, and legal factors. It has become harder to sustain entrepreneurship as economies scale. Many sources attribute the difficulties faced by entrepreneurs as a reflection of the inherent complexities of modern economies (Adi Gaskill). The harder it becomes to sustain entrepreneurship the more it becomes essential for society to support entrepreneurship mainly due to the benefits it brings to societies.

Economic

One of the most attractive aspects of entrepreneurship is economic growth. For years, research has shown that entrepreneurship has a positive impact on economic growth (Acs, et al., 2018). This is mainly because entrepreneurs throughout economic history have been responsible for radical innovations. Innovations that have changed the way we perform certain activities and achieve societal goals. Some of the economic benefits are new products and services. Entrepreneurs increase technology advances in many industries and enable new markets to be created and increase wealth in nations. Even more than that, entrepreneurship increases employment and higher earnings mostly in the form of higher tax revenue and higher government spending. Important to note is that not all new firms make lasting impact in economic growth. With more entrepreneurship datasets becoming available, researchers found
evidence that only a small number of new firms such as particularly innovative firms and firms with high-growth expectations create economic value with ‘creative destruction’ (Acs, et al., 2018). Although not all firms perform equally due to many factors, entrepreneurship is still responsible for improving standards of living and is the primary source of long-term economic prosperity (Why is Entrepreneurship Important?, 2019). Small businesses as a whole continue to be recognized as net job creators. In 2019, Small businesses created 1.6 million net jobs (U.S. Small Business Administration, 2020). Small businesses in the United States represented 99.9% of all U.S. businesses in 2020 and had 31.7 million small businesses that employed 47.1% of the private workforce (U.S. Small Business Administration, 2020).

In 2013, the proportion of new entrepreneurs in the United States fell to 0.28%. The rate continued to increase after 2014 as shown in Figure 1. yet, it has continued to decrease since 2017 at a 0.01% rate per year (Kauffman Foundation, 2020). The decrease could be attributed to the economic crisis that the country has experienced on several occasions. Lower rates of new entrepreneurs' means less growth in the country in terms of new inventions and social mobility.

**Figure 1.**

*Rate of New Entrepreneurs in the United States from 2000 to 2019*
Note: This statistic shows the rate of new entrepreneurial activity per 100,000 adults in the United States from 2000 to 2019. Kauffman Foundation. In Statista. (May 22, 2020).

Social

Entrepreneurship is not only about increasing economic growth. Contrary to the well-researched impact of entrepreneurship on employment and GDP, little is known about the impact entrepreneurship has on society. Entrepreneurships has positive benefits in society by addressing needs or problems and providing a solution to it. In the research study conducted by Thomas Neuman, he found empirical evidence that entrepreneurship positively affects measures of social welfare (Acs, Z. J., Estrin, S., Mickiewicz, T., & Szerb, L, 2018). Rupasingha and Goetz found that short-term self-employment reduces poverty in the rural and urban U.S. counties. Atems and Shand found that in the medium-term self-employment decreases income inequality in U.S. states and, finally, Dhahri and Omri found that new firm formations increase the National modified Human Development Index (MHDl) in developing countries (Acs, et al., 2018). The pursuit of innovative solutions influenced by entrepreneurs to the world’s most pressing problems has positive benefits for societies.
Minority Entrepreneurs

Figure 2.
Rate of New Entrepreneurs in the United States from 2000 to 2019, by Race


According to the Census Bureau’s latest Annual Survey of Entrepreneurs, there are more than 1.1 Million minority-owned businesses with employees in the United States (Esposito, N., 2019). Minority business owners play a significant role in the development of the United States economy. In 2016, minority-owned businesses had $1.2 million in annual sales and employed eight workers (Esposito, N., 2019). Approximately 71.9% of minority-owned small businesses have no employees, and most small businesses employed fewer than 20 people (Seid, T., n.d.). As the figure 5. shows the rate of new entrepreneurs in the United States from 2000 to 2019 had been constant for White, Black, and Asian while Latinos on the other hand have been increasing.
Despite this continued growth in entrepreneurship, minority businesses were small, less profitable, experienced high failure rates, and lacked sustainability beyond 5 years of beginning operations (Seid, T., n.d.).

**Figure 3.**

*Facts About Minority-Owned Employer Businesses*

![Chart 2. Share of Employer Firms Owned by Minorities](chart2)

*Source: U.S. Census Bureau, Annual Survey of Entrepreneurs*

*Note:* This chart shows factors about Minority-Owned Businesses obtained by the U.S. Census Bureau, Annual Survey of Entrepreneurs in 2016.

Minority-owned businesses are active in a wide range of sectors and areas. In 2016, the industries with the largest number of workers employed by a minority-owned business were the accommodation and food services with 2.4 million employees, health care and social assistance
with 1.4 million employees, and retail trade with 863,000 employees. Figure 5. shows the percentage of businesses owned by minority entrepreneurs in each state.

Several scholars for a long time assumed that all business owners were the same, and minority small business owners did not need different research approaches. Many also believed that minority business owners do not need additional factors to launch a new business, yet research continues to show that this assumption is not accurate. MBO’s uniqueness is clarified by viewing the factors that influence entrepreneurial success mentioned earlier in the paper, which tend to be prerequisites for general entrepreneurs, to be barriers for MBOs. Acquiring appropriate education, skills, work experience, accessing financial capital; and exploiting market opportunities are still factors MBOs need to take into account when deciding to open a new business. Research shows that overcoming these barriers has traditionally been more difficult for minorities than for aspiring other entrepreneurs (Bates, T., 2011). Higher barriers usually lead to companies that are too small and marginally profitable. MBOs who do not implement successful and sustainable strategies are at a high risk of failure (Bates, T., 2011).

Understanding and exploring the factors relating to the survival of minority small businesses can offer new minority business owners, the strategies needed to sustain their business for more than 5 years of beginning operations. Some researchers have sought to understand why the businesses owned by minorities generate 25% lower profits than the average small business in the United States. Also, understand why minority-owned businesses tend to have almost no employees.

**Factors that Influence Entrepreneurial Success**

Entrepreneurs are increasing at an exponential rate across the nation and the globe. Small businesses including minority owned businesses contribute to the local economy and are a source
of revenue for local, state, and federal government (Seid, T., n.d.). Yet, as the number of entrepreneurs increases the need to better assist these new ventures increases as well. Every year, entrepreneurs enter and exit the market and many cannot operate for longer than five years (U.S. Small Business Administration, 2020). For a long time, scholars and researchers in the entrepreneurial field assumed that all business owners were the same. They believed that all entrepreneurs need the same factors and the same approach to succeed. This assumption left minority groups unprotected. Some researchers have sought to understand why the businesses owned by minorities generate 25% lower profits than the average small business in the United States (Seid, T., n.d.). Better research studies need to be conducted to better understand minority business owners' needs. Minority business owners continue to create new businesses every year but they need to find a way to operate for a longer period of time and not fail within 5 years of beginning operations. To better understand the difference between non-minority entrepreneurs and minority entrepreneurs we should look at the main conditions that are believed to increase entrepreneurship and success.

**Growth Motivation Factors**

**Figure 4.**

*Entrepreneurship Framework Conditions in the U.S. in 2019*
Note: This statistic shows the rates for entrepreneurship framework conditions in the United States in 2019, according to a selected set of indicators. GEM. February 2020.

There are many theories in the entrepreneurial field that examine the importance of local industry conditions, individual motivations, and institutional structures to determine what encourages people to launch a new business while others deter entry. As shown in the figure, there are multiple framework positions in the United States, among which cultural and social norms are the main indicator showing a 7.68 sufficient for entrepreneurship. One of the main
focuses on entrepreneurial research has been the impact ecosystems have on launching a new business. Ecosystems provide networking opportunities to motivate each other and increase the chances of survival in a field or a particular region. Recent studies demonstrate that institutions matter in shaping the entrepreneurship ecosystem in cities, but in particular those institutional arrangements enhancing the productivity and reducing unproductive entrepreneurship (Audretsch, et al., 2021).

The most important factor about the entrepreneurial ecosystem is that it is a system. The focus of entrepreneurial ecosystems has largely been about the essential ingredients, while not taking into account the processes or “recipes” that two together created a sustainable development strategy (Malecki, EJ., 2018). Key relationships traffic in and out of the local ecosystem. To better assist entrepreneurs to not only launch their business but increase operations are the systemic conditions that are at the center of the ecosystem. The conditions include but are not limited to networks of entrepreneurs, leadership, finance, talent, knowledge, and support services. The presence of these conditions and the interaction between them most determine the success of the ecosystem (Malecki, EJ., 2018). Creating a system will promote innovation and the growth aspirations of individuals increasing the quality of entrepreneurship. If policymakers aim to increase productive entrepreneurship in their cities, the results of the research indicate that their focus should be on establishing supportive regulative institutional arrangements and government programs (Matt Saboe and Simon Condliffe., 2015). By establishing a support network, it will increase informal networks, promote entrepreneurial culture and increase the sustainable development direction of entrepreneurs (Audretsch, et al., 2021).

**Education Factor**
Many entrepreneurs are successful despite not pursuing higher education. Although entrepreneurial success is not mainly attributed to the attainment of higher education, academia continues to show that education allows entrepreneurs to better navigate the complexities of a business, operate for a longer time, and maximize their profits (Arruda, W., 2018). Formal education is not necessarily needed but alternative educational programs are worth considering. Alternative programs would allow entrepreneurs to learn new skills for both experienced and new entrepreneurs. Some skills can be attained while running a business but specific skills such as accounting, finance, and marketing might be hard to attain alone as an individual starts their business. Business education that maximizes entrepreneurial cognition is also likely to support productive and high growth businesses (Robert Huggins, et al., 2017). This fact demonstrates the importance of business education in increasing entrepreneurs' capacity in the ecosystem in cities to exploit market opportunities. Human capital represented by formal education positively influences survival through access to resources, allowing successful identification and exploitation of opportunities. (Robert Huggins, et al., 2017). Interestingly, it is those entering from education and training whose businesses are most likely to be still operating, with nearly two thirds of firms still active. Those entering business ownership from unemployment are the least likely to have survived 36.8% (Robert Huggins, et al., 2017).

Location Factors

Figure 5.

Factors that Lead to Entrepreneurial Exit
Note: This statistic is about the Factors that Lead to Entrepreneurial Exit. Obtained from the journal Entrepreneurship and the determinants of firm survival within regions.

Although location factors might affect regions in different ways, and national or international macroeconomic shocks will affect, local economic conditions and resources available may also impact on survival of a new venture (Robert Huggins, et al., 2017). Therefore, the location of the firm may increase or decrease the likelihood of survival through the threats faced and opportunities available that originates from outside the business. Local economic conditions will also have an impact on the performance of new businesses. It must be noted that the demands of a booming local economy will improve the performance of new enterprises and thus increase their rate of survival (Robert Huggins & Daniel Prokop, 2017). It is not clear which of the three factors mentioned has the greatest impact on the survival of new ventures. It is recommended that for decision makers who wish to encourage entrepreneurship, in the end, they should consider all three elements (Robert Huggins, et al., 2017).

Political Factors
Government regulations in industries considered to address a perceived market failure such as pollution, product safety concerns, or occupational safety. Studies show that as the number of requirements needed before starting a new business increases in a specific country, fewer new businesses will be created in that country (Bailey, J.B., Thomas, D.W., 2017). Regulations come with costs of entry, reduction of innovation in regulated industries, and tend to benefit larger firms that can overcome the costs. Regulations tend to benefit larger firms because they can overcome the costs of complying with regulations more easily than smaller firms. Large businesses may successfully lobby government officials to increase regulations with the goal of increasing smaller competitor’s costs. Studies also show that regulations discourage employment growth in all firms and that large firms are less likely to exit heavily regulated industries compared to smaller firms (Bailey, J.B., Thomas, D.W., 2017).

The results suggest that a 10% increase in the intensity of regulation as measured by the RegData index leads to a statistically significant 0.47% decrease in overall firm births (Bailey, J.B., Thomas, D.W., 2017). Additional results suggest that regulation has no statistically significant effect on firm deaths. The finding supports the idea that larger firms usually benefit from regulation which tends to drive away new entrants, but it does not put existing firms out of business. Although the regulations did shut down existing firms, they prevented hiring. A 10% increase in regulation leads to a statistically significant 0.63% decrease in hiring. The effect for small firms is slightly smaller; a 10% increase in regulation leads to a 0.48% decrease in hiring (Bailey, J.B., Thomas, D.W., 2017). The number for small businesses is not statistically significant but still poses additional costs to smaller less profitable- businesses.

Figure 6.
Barriers of Entry Cited by Entrepreneurs: Survey Results

Note: This statistic is about Barriers of Entry Cited by Entrepreneurs: Survey Results. Obtained from Journal of Business Venturing Insights.

The following graph shows the barriers most cited by entrepreneurs: only 6% of entrepreneurs cited government regulations to be a reason for a business to quit (Kwapisz, A., 2019). This answer shows that most entrepreneurs do not perceive government regulation as the main startup barrier. Although regulations are not the main factor that deters entrepreneurs from opening a new business, it still makes it challenging for new entrepreneurs and adds to the challenges entrepreneurs have to face at the beginning of their business (Wallace, V. A., 2017).

Factors that Influence MBOs Entrepreneurial Success

A number of analytical studies have shown that successful minority business owners have adopted the following strategies. These strategies can be implemented to increase operations of business profits and employment opportunities. Studies have found that minority small business owners can sustain their businesses if they equip themselves with strategies for obtaining
Financial capital

One of the main strategies for minority business owners is to secure financial capital. Minority business owners often struggle securing financial capital to launch their business. Some minorities have low wealth and limited access to capital. No access to capital is an obstacle that can slow the minority business owners' success and increase the likelihood of failure. For many minority business owners, it is common to use the income from family members to cover household expenses and use the income of the male to cover the expenses of the business. About 90% of minority business owners' earnings are spend in the business (Wallace, V. A., 2017). Also, a significant number of minority entrepreneurs depend on external financial sources only for the growth and sustainability of their businesses (Seid, T, n.d.). Research shows that if minority entrepreneurs do not have to think about obtaining financial capital, minority business entrepreneurs can choose how to build and grow their businesses. The potential extra cash given to minority business owners would allow minority business owners to focus on creating an advantage by performing repetitive and targeted marketing strategies to increase the number of customers. It is also important to note that minority entrepreneurs' operational costs tend to exceed revenue with startup costs, equipment costs, and capital needed to sustain the business.

When trying to secure financial capital, minority small business owners need to know the challenges of getting money from sources such as banks and credit institutions. It is common among minority business entrepreneurs to be rejected from obtaining a loan due to poor credit and lack of experience running a business (Bates, T., 2011). Minority business owners need to be
creative on how to fund their business by themselves until they reach a stable point. Self-funding can be the best option for minority business owners to operate at their own pace without added pressures and restrictions. According to the Global Entrepreneurship Monitor United States Adult Population Survey data indicated that 73% of entrepreneurs in the United States used their individual savings to primarily finance their business ventures (Rauf, 2017). This fact also showed that loans from financial lending institutions at 16% and finally contributions from family members at 8%. Minority entrepreneurs could also attain capital through networking and mentorship, which could allow them to have control over their businesses and increase success and operation.

**Marketing and Differentiation**

Another strategy that could allow minority entrepreneurs to operate for a longer period of time is a solid marketing and differentiation plan. An entrepreneur who allocates resources, has the capability to handle opportunities and threats in a constantly changing business environment. A marketing and differentiation strategy could allow minority business owners to adapt their personal strengths and weaknesses to obtain a competitive advantage in the industry. Efficient marketing can be a solution to some minority businesses' problems. Diversification is extremely important for minority entrepreneurs to differentiate products and services to a targeted audience. A differentiation strategy will distinguish a business from competitors, which could increase customer loyalty, brand awareness, sales, and growth (Bates, T., 2011). Customers should always be the focus to maximize success for a business.

As mentioned before, business development depends significantly, if not entirely, on marketing and differentiation tactics. For minority business owners, marketing, and differentiation planning
is informal in structure, implementation, and evolution. If minority entrepreneurs understand marketing and differentiation strategies and the importance it plays in a business, they are more likely to remain in business than those who do not (Bates, T., 2011). Competitive advantages are imperative for minority business owners to operate for more than 5 years. A way to achieve this could be through conferences, online courses, to attain the necessary tools to create a marketing presence, which could social media marketing as a way of sustaining their businesses.

**Customer Service**

Customer service plays a huge role when it comes to maximizing the operation of a business. This fact is also the case for minority business owners. It is of vital importance for emerging entrepreneurs to continuously build their customer service skills. Through customer service, small business owners can gain a competitive advantage over their competitors. Minority business owners tend to sustain customer loyalty by providing good customer service. Specifically, when minority business owners apply differentiation of product quality and price to their customer service, they can increase sustainability of the business. Minority business owners who do not have good customer service tend to fail because they are not building great relationships with the customer and they are not adapting to business trends. The ability to communicate effectively with customers is crucial because through customer service and feedback a business can improve management, and implement business strategies that will increase the likelihood of success. Small business owners who invest reasonable resources are able to understand the desires of the customers and make strategies to satisfy the needs of the customers sustain their business long term and become profitable (Seid, T., n.d.).

**Education and Experience**
Another strategy needed by minority owners is education and experience, which is related to general strategies needed for general entrepreneurs. Minority business owners need to create strategic tools and business plans to accurately analyze the feasibility of making a decision to launch a business. To lessen the potential risk of liability, an entrepreneur must have a comprehensive plan detailing the objectives and operational strategy of the business. Existing literature suggests that an advanced education increases chances for success and that both advanced education and work experience increased the chances of small business survival (Seid, T., n.d.). This is mainly because advanced education affects the choice of entrepreneurial strategies of minority business owners. It is extremely important for minority business owners' to acquire certain qualities and skills to better support their performance when they start and manage their business. Education, proper planning, human resources, finance, and cash management are some of the skills, which have a positive effect on performance as an entrepreneur (Seid, T, n.d.). Education also allows entrepreneurs to develop a comprehensive business plan and strategy (Seid, T., n.d.). A business plan is considered a contributing factor to the growth of a business and effective business strategy. Studies have shown that a positive relationship exists between business planning and business growth and performance (Wallace, V. A., 2017). With comprehensive business plans, minority business owners have the potential to mitigate the risks associated with working capital constraints.

**Minority Business Owners in Omaha, NE**

Nebraska is home to a growing and increasingly diverse population. Nebraska has 179,509 small businesses which is 99.1% of businesses. In 2017, Nebraska Small Businesses Employed 412,587 people, or 49.5% of the private workforce (U.S. Small Business Administration, 2020). According to the U.S. Small Business Administration Nebraska has 10,611 self–employed
minorities (U.S. Small Business Administration, 2020). Of the 1.9 million residents in Nebraska, an estimated 19.2% are classified as a racial or ethnic minority, well below the 37.7% for the total U.S. population (U.S. Census Bureau, 2016). The proportions of Nebraska’s racial and ethnic minority populations tend to be smaller by 4% (i.e., Asian) to 8% (i.e., Black or African American, Hispanic/Latino) than those of the U.S., except for the Hawaiian and Pacific Islander and American Indian and Alaska Native populations (i.e., smaller only by 0.1% to 0.2%). Nebraska’s urban areas, which comprise 73.1% of the Nebraska population, have higher numbers of racial and ethnic minorities than suburban or rural areas. Counties with high relative concentrations of young children and youth tend to be the ones that also have high relative concentrations of racial and ethnic minority populations, specifically Hispanic/Latinos and American Indian and Alaska Natives. Most counties in Nebraska with high racial/ethnic minority concentrations have lower relative elderly concentrations, suggesting a low relative concentration of minority elders in these counties.

Analogous to the U.S. Minority Business profiles, Minority Business owners tend to have more difficulty compared to other groups in Nebraska to obtain loans or help from the government. In Nebraska, 80% of small business establishments have no employees and the small business turnover rate is so high (Linares, L. A., 2014). According to the Treasury Department data that showed that small businesses in Nebraska applied for loans during the COVID-19 pandemic, received a loan of $150,000 or more. In all, the 4,179 businesses who qualified received almost $1.62 billion dollars in federal loans (Zozaya, J., 2020). The extra cash helped small businesses save 180,027 jobs. However, when taking a closer look at the numbers a total of 53 businesses among the 4,179 who qualified, 1.2% were minority owners. More specifically, in the 53 businesses, 7 were Black-owned, 25 were Hispanic, 16 were Asian, and 5
were Indigenous Peoples-owned businesses (Zozaya, J., 2020). This data shows the lack of diversity, which continues to portray the historic problem in minority communities to have access to capital and how often they have to seek capital through unconventional channels. The fact that not a lot of minority businesses qualify for loans and help during crises makes them more propense to fail.

**How to Increase MBOs in Omaha, NE**

Self-employment for minority business owners has served to outweigh the negative effects in the reduction of wage earnings for the employed population in the state. Some of the limitations found in the Hispanic community in Nebraska could be similar to other minority communities in Omaha. These limitations are low educational attainment of minority business owners, the limited access to financial capital, and limited capacity to offer better employment conditions for their workers (Linares, L. A., 2014). Some policies that could help address these limitations are first to promote applied research to identify the factors inhibiting business expansion among minority-owned businesses in the state. Second, implement strategies that could help increase the outreach of existing business services, training, and financial programs in the state (Zozaya, J., 2020). The last strategy is to design policies to promote minority-owned businesses with focus on initiatives aimed at generating community wealth. Some strategies can include the expansion of low-cost or tax-deferred financial products that could increase savings for either business investment or college funds for children.

**Conclusion**

In conclusion, findings show that MBOs continue to experience high barriers trying to find basic resources. There is evidence that proves the persistence of low minority business ownership rates and the survival of existing minority businesses is affected by social norms,
legislation, and opportunities to establish connections. Results showed that initiatives to increase entrepreneurship in minority communities need to focus primarily on financial capital, marketing and differentiation, customer service, and education and experiences. These strategies will help stimulate economic growth and reduce minority business failures by increasing operation for more than five years. Evidence shows that entrepreneurship increases economic opportunities and has positive impacts in communities. Omaha needs better initiatives to better assist minority business owners to not only stimulate economic growth, but also help minority communities grow.
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