

MINORITY ECONOMIC DEVELOPMENT: THE PROBLEM OF BUSINESS FAILURES

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In theory, the private enterprise system offers individuals the opportunity to achieve respect, power, and financial success through business ownership, limited only by their personal capabilities. During the 1960's the nation became painfully conscious that economic opportunities were in fact very limited for our minority populations. Past discriminations have placed them in a weak competitive position in terms of capital, experience, and entrepreneurial motivation. One of the most glaring deficiencies in the system was the lack of business ownership opportunity for minority people.

I

THE SCOPE OF MINORITY ENTERPRISE

A. Minority Business Today

The evidence is irrefutable that minority business is a pitifully insignificant part of our total economy.¹ Of approximately 5,000,000 businesses in the country, only 45,000 are black-owned.² Yet black people comprised more than eleven per cent of the total population in 1969.³ The lack of black business ownership in cities where black populations are large is one explanation of ghetto unrest.

Newark . . . has approximately 400,000 people, of whom more than half are black. Of the 12,172 licensed businesses in the city, a little more than 10 per cent are Negro-owned. . . .⁴ Of the 800,000 residents of Washington, D.C., Negroes are a majority of 63 per cent. Yet, out of 11,755 businesses in our nation's capital, Negroes own only 1,500—less than 13 per cent.⁵

The statistics are even more striking when the small size of most black businesses is taken into account. Theodore Cross has pointed out that "only a dozen Negro businesses in Manhattan employ ten or more people"⁶ And Andrew Brimmer has shown that black-owned businesses in Washington, D.C., are concentrated in retail trade and services, primarily barber and beauty shops, dry cleaning establish-

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¹ Because of the availability of data, the discussion will focus on black business. The situation is undoubtedly similar among Spanish-Americans and Indians.

² McKersie, *Vitalize Black Enterprise*, HARV. BUS. REV., Sept.-Oct. 1969, at 88, 89. While this figure may be disputed, there is no argument that the number of minority businesses in the country is small relative to minorities' share of the population.

³ U.S. DEP'T OF COMMERCE, BUREAU OF THE CENSUS, CURRENT POPULATION REPORTS: POPULATION ESTIMATES AND PROJECTIONS 5 (Series P-25, No. 441, 1970).

⁴ T. CROSS, *BLACK CAPITALISM: STRATEGY FOR BUSINESS IN THE GHETTO 60* (1969).

⁵ *Id.* at 60-61.

⁶ *Id.* at 60.

ments, and food stores.⁷ A 1968 survey conducted by the National Business League revealed similar situations in seven different cities with substantial black populations.⁸

Even when black businesses operate in areas of greater potential, such as those in manufacturing and insurance, they tend to be small-scale operations heavily dependent on the ghetto environment.⁹ For example, North Carolina Mutual, the largest black life insurance company has assets of approximately \$96 million, but the combined assets of all the black-owned life insurance companies still equal only 0.2 per cent of the industry total.¹⁰ Two successful black business ventures often held up as examples of black capitalism at its best are the Johnson Publishing Company and Park's Sausages, with sales of about \$12 million and \$7.5 million, respectively. These successes are dwarfed by competing corporate giants, such as Time, Incorporated, with sales of more than \$600 million, and Swift, with sales over three billion dollars. Howard Samuels, former Undersecretary of Commerce, has stated that the black community controls only one-tenth of one per cent of the total business investments in the nation.¹¹

Without question, black businesses are few in number, small in size, and limited in potential for growth.

B. The Rise of Black Capitalism

Faced with intense pressures from minority groups, government (primarily the federal government) and private business responded to a campaign idea of President Nixon. The idea was black capitalism, and it was enthusiastically embraced by the white community, although acceptance was mixed in the black community. As a result of the black capitalism concept, a number of programs were initiated to encourage and assist minority businesses. An Office of Minority Business Enterprise was established in Washington, D.C., to coordinate various governmental programs related to minority business. The most important of these involved the Community Development Corporation,¹² MESBICs,¹³ and the Small Business Administration's Loan Guarantee and Economic Opportunity Loan programs.¹⁴ In the private sector, groups such as the Urban League, the National Business League, and the Interracial Council for Business Opportunity began to work actively toward minority business development. Several large corporations, including IBM, General Foods, and Xerox, attempted individually to assist minority businesses, often by purchasing from minority suppliers. Universities became involved, as schools of business around

⁷ Brimmer, *The Economic Potential of Black Capitalism* 11 (paper presented at the 82d annual meeting of the American Economic Association, Dec. 29, 1969).

⁸ NATIONAL BUSINESS LEAGUE, PROJECT OUTREACH (1968).

⁹ Brimmer, *supra* note 7, at 11.

¹⁰ Cross, *supra* note 4, at 62 n.24.

¹¹ Daily News Record, May 7, 1969, at 1.

¹² Sturdivant, *The Limits of Black Capitalism*, HARV. BUS. REV., Jan.-Feb. 1969, at 122.

¹³ Rosenbloom & Shank, *Let's Write Off MESBICs*, HARV. BUS. REV., Sept.-Oct. 1970, at 90.

¹⁴ 13 C.F.R. §§ 119.1-120.3 (1970).

the country established scholarship programs for training black managers and consulting programs to provide advice for minority businesses.¹⁶ In some schools, MBA students themselves organized minority consulting operations outside the framework of the institution.¹⁶ At others, the consulting became part of the academic program.¹⁷ It is clear that a great many people, from government, business, and universities, are deeply involved in efforts to develop black business.

Almost as soon as programs for minority business development began to emerge, criticism of the concepts of black capitalism arose. The most publicized was by Andrew Brimmer, but others flooded the academic journals.¹⁸ Critics felt that the potential impact of black capitalism on the black population was limited, that its goal was to create a few more black millionaires or, conversely, to perpetuate "mom and pop" retail and service establishments, and that the realities of the economic environment precluded success on a significant scale. The term *black capitalism* itself, symbolizing an economic system that historically had denied opportunity to black people, came under attack. Some critics even believed that the system of free enterprise was incongruous with the needs of minority groups.¹⁹ Among groups actively participating in and benefiting from the system, there were many who were irritated at the thought of special advantages being offered to black people. And others were concerned by the thought of new competition.

Many of the criticisms of black capitalism were clearly justified. The ghetto environment *is* difficult for business. The short-term impacts of increased minority business ownership *will be* small relative to the potential gains possible through the eradication of discrimination in employment. And most gains in minority business, in terms of the number of businesses, *are* likely to come among small retail and service establishments, while the bulk of the nation's economic power will likely remain concentrated in the large corporations.

Yet, despite the critics, government, business, and universities continue to expand and improve their minority business development programs. Why?

The response from within the black community has clearly demonstrated that many blacks have strong desires to participate in business enterprise. Whites, particularly white businessmen, realize that it takes time to build business enterprises, that most black businesses will be small just as most white businesses are small, and

¹⁶ U.S. DEP'T OF COMMERCE, OFFICE OF MINORITY BUSINESS ENTERPRISE, HIGHER EDUCATION AID FOR MINORITY BUSINESS: A DIRECTORY OF ASSISTANCE AVAILABLE TO MINORITIES BY SELECTED COLLEGIATE SCHOOLS OF BUSINESS (1970).

¹⁶ Glasser, *Student Consultant—Ghetto Client: A Developing Rapport*, MBA, Oct. 1969, at 30.

¹⁷ W. STRANG, CONSULTING FOR BLACK ENTERPRISE—A CHALLENGE TO THE BUSINESS ESTABLISHMENT (1970). See also Seldin & Kokus, *Management Aid for Black Entrepreneurs: The American University Program*, J. SMALL BUS. MANAGEMENT, July 1970, at 13-15.

¹⁸ Brimmer, *supra* note 9. See also MacDowell & Vorzimer, *Black Capitalism: Opportunity or Myth?*, U. WASH. BUS. REV., Summer 1970, at 24; Boggs, *The Myth and Irrationality of Black Capitalism*, REV. BLACK POL. ECON., Spring/Summer 1970, at 27; Booms & Ward, *The Cons of Black Capitalism: Will This Policy Cure Urban Ills?*, BUS. HORIZONS, Oct. 1969, at 17.

¹⁹ Boggs, *supra* note 18.

that accomplishments will always seem insignificant on a year-to-year basis. But they have a basic faith in the free enterprise system. They understand the importance to individuals of having the opportunity of business ownership available to them and the psychological value, particularly on the local level—where we all live—of seeing living examples of successful businesses operated by citizens of the community. Being pragmatic, they see the end goals of minority business development as the sum of the successes of individual minority-owned business ventures. Thus, the key questions about black capitalism are: How many black business ventures can be developed? What is the market potential of these ventures? Will they succeed or fail?

This article is based on the thesis that the reasons for the success or failure of small businesses, particularly those pertinent to minority businesses, can be identified and that steps can be taken to reduce the failure rate.

II

THE PROBLEM OF BUSINESS FAILURES

Most business ventures fail. Dun and Bradstreet, probably the nation's most informed source on the subject of business failures, has stated that "only one out of two [businesses] will survive as long as eighteen months and . . . only one out of five will still be in business in ten years . . ." ²⁰ Because Dun and Bradstreet studies include only those failures involving court proceedings or voluntary actions likely to end in creditor losses, overlooking marginal businesses that survive without success, the true failure rate is likely to be much higher.

The problem of business failures is especially important to the black business community. Any business failure is a traumatic experience for the man who loses his capital and sees his efforts wasted. But, in the white community, failures are accepted as a characteristic of the system; and as one venture fails, another begins. In the black community, where the goal is to *increase* the market share of black business, business failures cannot be so easily accepted. Each individual failure is a blow against the achievement of the community goal.

A. The Causes of Business Failure

Businesses fail for many reasons. Stories of individual business failures never cease to be interesting, because of the variety of explanations offered for the failure. Yet behind these explanations, certain basic causes of failure appear and reappear.

Dun and Bradstreet studies have identified the most frequent causes of business failure. As shown in Table 1, their studies have indicated that incompetent management is by far the most frequent cause of business failure. Including the closely associated reasons of unbalanced experience (strength in some functional areas, but not others), lack of managerial experience, and lack of experience in the line,

²⁰ Wyant, *Business Failures*, DUN'S REV., Oct. 1968, at 145.

TABLE 1
CAUSES OF BUSINESS FAILURE, 1969

Underlying Cause of Failure	Percentage of All Failures
Incompetence.....	45.6
Unbalanced experience.....	19.5
Lack of managerial experience.....	13.7
Lack of experience in the line.....	8.7
Neglect.....	2.8
Disaster.....	1.4
Fraud.....	1.2
Reason unknown.....	7.1
Total.....	100.0

Source: DUN AND BRADSTREET, THE FAILURE RECORD THROUGH 1969, at 11.

TABLE 2
OPERATING PROBLEMS RESULTING FROM POOR MANAGEMENT

Cause of Failure	Percentage of Failures Due to Mismanagement
Inadequate sales.....	42.2
Competitive weaknesses.....	22.9
Heavy operating expenses.....	12.1
Receivables difficulties.....	10.1
Inventory difficulties.....	4.5
Excessive fixed assets.....	3.9
Poor location.....	2.8
Other.....	1.5
Total.....	100.0

Source: DUN AND BRADSTREET, THE FAILURE RECORD THROUGH 1969, at 12.

management weaknesses account for almost ninety per cent of all business failures. Fraud, neglect, and disaster are relatively infrequent reasons for failure.

Table 2 is presented to show the operating difficulties that arise most frequently because of poor management. The most common operating difficulty leading to failure is inadequate sales; this is followed by competitive weakness. Both of these indicate a lack of marketing ability. Other operating problems frequently causing failure, in order of importance, are heavy operating expenses, receivables difficulties, and inventory difficulties, all suggesting a lack of controls within the business. The latter two could also be due to a lack of adequate capital within the firm.

Dun and Bradstreet attributes almost all operating difficulties to inadequate management, apparently assuming that competent managers could solve the problems that arise and thus keep the business afloat. This may be a bit harsh. One can certainly visualize totally unforeseeable situations that could arise to crush a business. In addition, it is possible to understand how a good manager denied adequate capital

resources might choose to attempt his venture in spite of the high risk artificially created by the lack of capital. But other sources confirm the judgment that poor management is the principal cause of business failure. Frank L. Tucker has stated,

In various studies and surveys for the purpose of determining the causes of failure of small firms the principal problems seem to be deficiencies in capital and management. In my opinion, if a company has good management, it is not likely to have financial problems. . . . I suspect that the most usual causes of chronic shortages are poor planning, recklessness, and a desire to maintain maximum equity control. This reasoning brings the spotlight to rest on management as the critical variable in small business success.²¹

Wilford L. White, with years of experience in counseling small business concurs, adding that the principal reasons that small firms fail to grow are a lack of experience, the lack of a customer point of view, a hesitation to hire others, an unwillingness to delegate authority with responsibility, the fear of the strange and new, and a fear of growth.²²

Paul J. Fitzpatrick, in his study of business failures during the period 1920-1929, recognized several external factors, which are generally beyond the control of business executives and which often lead to business failure,²³ and he pointed out that during the depression period of the 1930's the external factors predominated over the internal factors. The internal factors that he identified more than thirty years ago are probably applicable to the causes of business failures today:

1. Overinvestment in fixed assets, especially in the short period of a year;
2. Excessive advances to, and/or investments in, affiliated and subsidiary companies;
3. Overinvestment in inventories;
4. Overinvestment in receivables;
5. Insufficient working capital;
6. Weak cash position;
7. Excessive good will and other intangibles;
8. Unbalanced financial or capital structure;
9. Excessive current or short-term obligations;
10. Excessive funded or long-term obligations;
11. Inadequate and declining net sales;
12. Insufficient net profits or earnings;
13. Unusual and unexpected losses;
14. Excessive interest and other fixed charges;
15. Excessive operating expenses;

²¹ Tucker, *Foreword* to L. ALLEN, *STARTING AND SUCCEEDING IN YOUR OWN SMALL BUSINESS* at xi (1968).

²² White, *Introduction* to *id.* at xv-xviii.

²³ P. FITZPATRICK, *THE PROBLEM OF BUSINESS FAILURES* 67 (1936).

16. Inadequate reserves for depreciation, contingencies, and other necessary purposes;
17. Excessive and unearned dividend payments; and
18. Economically unwarranted existence of the enterprise.²⁴

He suggested that management, in most instances, was responsible for the above conditions.

Although businesses fail for many reasons, the predominant belief is that the owner-manager's ability to avoid or solve problems is the key to the success of a business enterprise. Because most businesses fail, it is apparent that the standards for success are high. The strong and the talented survive at the expense of the weak.

B. Minority Business Failures

Before evaluating the causes of minority business failures, it is first necessary to determine the criteria to be used for success. Normally, the evaluation of business success or failure is based on financial factors, such as profitability. There has been some consideration given to the idea that the criteria should be different for black business. The goal of black business may be to build community pride, to provide service where none existed before, or to provide employment. In addition, financial success is difficult because a ghetto operating environment is severe, raising costs and prices for a market that cannot afford to bear them. Thus, in the short to medium term, it may be desirable to evaluate minority businesses on goals other than profit, providing financial subsidies of one form or another to allow the "successful" firms to continue. But in the long run, so long as the free enterprise system endures, success must be measured in financial terms. Pride will come only when the minority business establishment can be compared on equal terms with the white business majority. In addition, minority business, if it is to grow and prosper, must compete in the larger, more wealthy markets outside the ghetto. To successfully accomplish this end, minority business will eventually have to accept the standards of the majority and to compete for men, money, and capital on the basis of the ability to manage resources.

III

A SURVEY OF MINORITY BUSINESSES

In an attempt to discover the factors leading to the success or failure of minority businesses, the author conducted a survey in September 1970 of organizations and individuals actively involved in assisting minority businesses. Mail questionnaires were sent to seventeen organizations and individuals. Five were found to be just beginning their assistance programs; of the remaining twelve, seven responses were

²⁴ *Id.* at 67-68.

received. The respondents were working with 792 minority businesses in different areas of the country, and the data returned related to forty-eight of these businesses.

The businesses being served were young, averaging 2.3 years since their inception. They were primarily retail establishments (forty-six per cent) and service organizations (thirty-three per cent), but there also were some manufacturers (ten per cent), contractors (seven per cent), and wholesalers (four per cent). The consulting agencies had been working with these firms for an average of eleven months, almost half of their business lives.

On a rating scale of 1 to 7, with complete failure at point 1 and complete success at point 7, the respondents were asked to evaluate the *financial* success or failure of the firms with which they were working. (Respondents who had worked with more than twelve firms were asked to select the six most successful and the six least successful for evaluation). Fourteen firms were rated as successful (5, 6, 7) and twenty firms as failures (1, 2, 3); ten received neutral ratings. The mean, mode, and median ratings of success/failure were approximately 3, below the neutral point. In other words, the minority firms that the respondent organizations and individuals had been working with had met with mixed success and on the average had not succeeded. The most successful types of firms were retail establishments (4.5), followed by

TABLE 3
FINANCIAL SUCCESS OR FAILURE OF ASSISTED FIRMS

Consultant Evaluation	Percentage of Firms Evaluated					Total
	Retail	Service	Construction	Manufacturing	Wholesale	
Successful.....	50	20	—	25	—	32
Failure.....	35	47	67	50	100	45
Neutral results.....	15	33	33	25	—	23

Source: Bureau of Business Research & Service, University of Wisconsin, Survey of Minority Enterprise Consulting Organizations (Sept. 1970).

service organizations (3.5); manufacturers (2.8), contractors (2.0), and wholesalers (1.0) rated as complete failures financially. The results of the ratings are presented in Table 3.

The respondents were asked to suggest the reasons for the success or failure of the firms they had assisted. The reasons for success are presented in Table 4. Because the number of successful firms was only fourteen, the percentage results in Table 4 should be interpreted with caution. The most significant column is the total firm column.

Strong motivation was the most frequent reason given for the success of the minority businesses studied. This was not surprising. Although it is no guarantee of success—many businesses go down fighting—it is one of the essentials. One of the characteristics of a new business venture is that problems seem to arise continually. It takes a highly motivated manager to resolve them day after day.

Consistent with the Dun and Bradstreet findings about business failures nationally, factors related to managerial ability (experience in the line, managerial ability, business education/experience) were also important explanations for the success achieved by the firms under study. Among the operating strengths resulting in success, marketing seemed somewhat more important than others (good market potential, good marketing effort), but formal controls and planning, location, businesslike attitudes, capable employees, good credit management, and good inventory management were also mentioned. It was interesting that relatively few firms appeared to succeed on the basis of strong financial capacity, confirming the thought that capital is secondary to management as a determinant of success.

A study of the firms that failed, or were failing, brought forth some interesting differences. As shown in Table 5, lack of motivation was a relatively infrequent reason for failure. Apparently, most of the minority businesses that were studied had motivated managers. The findings suggest caution in approaching potential entrepreneurs. Convincing them to begin their own businesses if they do not have strong motivation is doing them a disservice, because of the serious consequences of failure. The most significant fact about the finding, however, is that only three of the thirty-four firms rated as successes or failures suffered from a lack of managerial motivation.

The most frequent causes of failure related to a lack of managerial ability, business education, and experience, again consistent with the Dun and Bradstreet findings. However, while only twenty-six per cent of the nation's business failures were attributed to reasons associated with a lack of formal controls, sixty per cent of the minority firms encountered these difficulties. Although differences in data

TABLE 4
REASONS FOR SUCCESS

Reason	Percentage of Firms Mentioning			
	Retail	Service	Other	Total
Strong motivation.....	60	100	100	71
Experience in particular line of business.....	70	33	100	64
Managerial ability.....	70	67	—	64
Good market potential.....	50	67	—	50
Business education/experience.....	50	33	—	43
Good marketing effort.....	30	33	100	36
Good formal controls and planning.....	30	67	—	36
Good location.....	40	33	—	36
Businesslike activities.....	20	67	100	36
Capable employees.....	20	67	—	29
Good credit management.....	30	—	100	29
Good inventory management, good buying practices.....	40	—	—	29
Strong cash flow, adequate working capital.....	30	—	—	21
Earnings returned to the business.....	10	—	—	7

Source: Bureau of Business Research Services, University of Wisconsin, Survey of Minority Enterprise Consulting Organizations (Sept. 1970).

TABLE 5
REASONS FOR FAILURE

Reason	Percentage of Firms Mentioning			
	Retail	Service	Other	Total
Lack of managerial ability.....	57	86	67	70
Lack of business education and experience...	86	43	67	65
Lack of formal controls and planning.....	86	43	50	60
Insufficient cash flow or inadequate capital.....	43	43	83	55
Inadequate marketing effort.....	43	57	33	45
Inadequate capital at inception of business.....	29	43	50	40
Employee lack of experience, lack of skills...	14	43	50	35
Lack of experience in particular line of business.....	43	—	33	25
False attitudes toward business.....	14	43	50	25
Inventory mismanagement, poor buying practices.....	71	—	16	30
Inadequate management counseling.....	—	—	67	20
Lack of motivation.....	14	29	—	15
Poor credit management.....	—	29	—	10
Lack of market potential.....	14	14	—	10
Other.....	28	—	17	15

Source: Bureau of Business Research and Service, University of Wisconsin, Survey of Minority Enterprise Consulting Organizations (Sept. 1970).

make a direct comparison between the two studies difficult, the survey of minority businesses suggests that basic bookkeeping and planning are important needs to be met if the rate of minority business failures is to decline.

Although not the most severe problem, inadequate capital (insufficient cash flow, inadequate capital at the inception of the business) was an important reason for failure, and capital seemed to be a more serious problem for minority businesses than it was for the total business community. Marketing problems were also mentioned often enough to be of concern. Insufficient cash flow problems may often have been a function of inadequate marketing. It is interesting that only ten per cent of the failures attributed their difficulties to a lack of market potential. Apparently, the basic ideas for the businesses were usually sound. The difficulties arose in organizing resources to achieve the potential.

The response "false attitudes toward business" embraced a number of things, but it primarily indicated a lack of understanding of the need to work hard, to meet competition, and to achieve by satisfying market needs. In one-fourth of the minority business failures, this was a problem.

In view of the managerial weaknesses indicated by several of the other answers, it was surprising that only twenty per cent of the failures were attributed to inadequate management counseling. One explanation may lie in the fact that the respondents evaluating the failures had been providing counseling. It is difficult to imagine that adequate counseling on a continuing basis could not have helped

to solve such basic problems as a lack of formal controls, planning, inadequate marketing effort, and others.

In summary, it appears that the managers themselves, their motivation and abilities, were the key to the success or the failure of the minority businesses studied.

IV

MINORITY BUSINESS FAILURES: SOME EXAMPLES OF THE PROBLEMS

A. Management Weaknesses

The major cause of business failure in both the white and black communities has been attributed to management weaknesses. In the black community, where past discriminations have prevented blacks from holding positions of significant responsibility, the problem of lack of experience is especially devastating. Indeed, the lack of opportunity to work for others has often been the primary motivation for starting a business.

Managerial weakness is usually soon revealed by the operating problems that arise. One of the most frequent difficulties is in the area of controls. The examples are endless: the Wisconsin construction company that lost \$55,000 in its first two years (and showing a loss *before* operating expenses), because it had no idea of its job costs; the roofing contractor who kept his bills and accounts receivable in a single box, seldom referring to it, and who accidentally discovered that he had owed a supplier \$1,700 for three months; the Milwaukee meat wholesaler who did not understand how to use his cash register and did not even know his sales volume. Correcting problems of this kind is relatively simple in theory. An accountant might donate his services and spend four or five days, part-time, to bring the books up to date and then take a few hours to present an ongoing bookkeeping system to the owner-manager. In truth, of course, the problem is much more difficult. The need is to convince the owner-manager of the importance of keeping records and to teach him how to do it. Generally, it takes several months of repeating instructions, checking and rechecking, and using the output of the records in decision-making before the business has an accurate and useful system.

Marketing problems are among the most frequent causes of failure for small businesses generally. If revenues are flowing into the business, time is usually available to solve other operating problems; but when sales do not produce revenues, a business can die quickly. In many cases, the minority entrepreneur is a craftsman, who knows how to produce a good product or service. He assumes that it will be bought and is terribly discouraged to discover that his sales estimates are not realized. There is the example of the Milwaukee printer, who resisted advice to market his services, because he did not want to grow too fast. As a result, his sales never reached the break-even point, and he survived only by never paying himself a salary. A Wisconsin manufacturer of aluminum screen doors and windows was disturbed

at his inability to make a profit, but when he developed a marketing program, his sales quickly moved past the break-even point.

Some black businesses expect that black ownership itself will be enough to generate local sales to support the business. The danger of this assumption is revealed by the statement of a black businessman, "Now I believe that nearly all black people have reached a point where they don't resent coming to a business run and owned by a brother."²⁵ Not only is black ownership not a guarantee of success, but prejudices within the black community have had to be overcome. American Dream Soap was launched on the strength of black loyalty, but the bulk of its sales have been to upper-class blacks and to whites.²⁶ In contrast, sales to black consumers based on a differentiated product rather than loyalty to black business have met with unqualified success.²⁷ Supreme Beauty Products was successful in promoting the natural look in black hair styles; black dolls have also found a ready market.

On balance, it probably is true that black owners can expect to achieve some loyalty on the basis of race, so long as they offer a good product and reliable service. "Rather than facing unique problems, the black merchant may have a unique advantage in black areas; just as the white merchant has in white areas Some members of P.D.A. (Progressive Development Association in Philadelphia) are successfully operating stores that were failing under white ownership."²⁸ But black patronage due to black ownership should be viewed as an opportunity, not as a guarantee of success.

Another frequent problem is the accumulation of too many assets. A small black printer had purchased about twice as much equipment as was justified. A \$7,000 mailing machine had been purchased a year earlier, and it was producing only about \$200 of sales revenues annually. A black modeling and charm school, with very weak revenues, purchased an expensive television taping unit that was used only a few times a year, and even then was not essential to the running of the business. A roofing contractor neglected to pay his accounts payable, allowing them to rise to a dangerous point, while he purchased used trucks, a bus, and other equipment of dubious value to his company. Discussions with the businessmen revealed that they felt more secure putting their money into tangible equipment than building up working capital or reducing their debts. In addition, having had little before beginning their business, their equipment was to them a visible display of their success. The danger of such practices is evident.

A fourth operating problem that occurs frequently enough to mention is high operating expenses relative to the ability to pay. Many minority businessmen, starting from a weak financial position, discover too late that they have been too free with

²⁵ *Success*, BLACK ENTERPRISE, Aug. 1970, at 29.

²⁶ G. BERKNER, BLACK CAPITALISM AND THE URBAN NEGRO 25 (1970).

²⁷ *Id.* at 26.

²⁸ McLaughlin, *Black Enterprise: The Philadelphia Experience*, J. SMALL BUS. MANAGEMENT, Apr. 1970, at 39.

their expenditures. Common situations involve high pay for employees who are paid on the basis of what they "deserve" (rather than what they can contribute to the firm), "draws" for the owner above what the firm can afford, and the purchase of unnecessary services.

Pricing problems are also frequent, particularly with manufacturing companies, which are usually job shops, and construction companies, which have to estimate costs and submit bids to obtain orders. A black businessman in Milwaukee was asked to submit a bid to do some electronic servicing and installing. He was elated with the prospect of making substantial profits, only to have an MBA consulting team show him that he would have lost money on the job—that the bid should have been approximately four times as high. Unfortunately, in spite of the fact that estimating procedures can be laid out, bidding competitively is almost an art and can best be learned through experience. Minority businessmen, who have never had the opportunity to participate in bidding before, can be expected to make mistakes as they learn. The danger is that their firms may fail before they have gained the needed bidding skills.

B. Lack of Capital

One of the most common complaints of small businessmen is that they were never provided enough capital to sustain them. Minority businessmen often feel that they have been denied access to capital because of their race. Undoubtedly, this has been true historically, and it is probably true in many situations today. For obvious reasons, many minority businessmen were unable to accumulate capital before they went into business. Thus, when they do undertake a business venture, they have little or no equity capital and they have little collateral.

Efforts have been made to supply capital to black businessmen on bases that put aside the standard criteria for providing loan or equity money. The federal government's MESBIC and Economic Opportunity Loan programs offer one source for financing. The Rochester Business Opportunities Corporation, Progress Enterprises in Philadelphia, the Harlem Commonwealth Council, and the Bedford-Stuyvesant Restoration Corporation, are examples of groups formed to provide capital to minority entrepreneurs. In addition, a number of large corporations, such as Phillips Petroleum, Johnson's Wax, and Westinghouse Electric, have taken steps to provide capital to business ventures begun by minorities. It is difficult to argue with the fact that a number of financial sources have been developed to serve the minority businessman.

At the same time, there are problems. A businessman who bought a theater in a Los Angeles ghetto area was denied SBA funds, "because of his job and an excellent credit rating," which theoretically enabled him to get financing through more conventional channels; but the banks turned him down.²⁰ A fast-food fran-

²⁰ *Failure*, BLACK ENTERPRISE, Aug. 1970, at 31.

chiser, who would operate in ghetto locations and would franchise to blacks, was unable to raise "a nickel of equity capital" from any of over 200 establishment sources contacted, despite a superior plan and an equity base. The company started without the extra financial support and was operating profitably within a month.³⁰

It may be just as bad to provide too little money as no money at all. A Milwaukee plastics manufacturer began with a loan of \$10,000 and no equity capital. Sales proved expensive to obtain (because of travel expenses) and slow to materialize. The \$10,000 was quickly used up and the loan extended to more than \$17,000, a few thousand dollars at a time. The business has great potential, and it appears that sales contracts are coming from such large firms as General Motors, Chrysler, IBM, and Western Electric. Contracts have been already received from United Airlines and American Motors. This firm has progressed well, but there are some doubts as to its survival because of inadequate initial financing. A plastics manufacturer consulted about this project suggested that it takes \$30,000 to \$50,000, and three years, to establish a firm in plastics.

Capital *is* a problem for the minority entrepreneur. Hopefully, the financing programs underway will continue to grow and, one way or another, the needed financing will be made available.

C. The Ghetto Environment

A problem of significant proportion for black-owned businesses is that the ghetto environment is difficult for any kind of business. While many black-owned businesses, especially those seeking to compete in the total market, will be and should be operated outside the ghetto environment, it is reasonable to expect that a large number of black-owned businesses will be established in ghetto areas. The major difficulties of operating in a ghetto are a lack of skilled employees, a relatively poor market, a reluctance of white customers to enter the ghetto, high insurance costs, and danger from losses due to fire and theft. The examples of the high cost of operating a business in the ghetto are abundant: the fast-food franchiser who lost \$11,000 over a period of several months because his employees were stealing from his cash register; the theater owner who saw his business fail because of vandalism by youths;³¹ the dress-making company that found that the skills of its employees did not match their enthusiasm.³² Establishing black-owned business in the ghetto is one approach to improving the environment, but the disease may be stronger than the medicine.

V

REDUCING THE FAILURE RATE

Black enterprise, while encouraged by a number of resounding successes, continues to suffer from a high failure rate. If meaningful success on a national level

³⁰ Shiriak, *Letter to the Editor*, HARV. BUS. REV., Nov. 1970, at 31.

³¹ *Failure*, BLACK ENTERPRISE, Aug. 1970, at 36.

³² *I Started with \$1,000*, BLACK ENTERPRISE, Aug. 1970, at 36.

is to be attained, the ratio of successful individual business ventures to failures must rise. How can this best be accomplished?

The prescription for a successful minority enterprise development program seems to have four major facets:

1. *Encourage potential minority entrepreneurs to undertake business ventures.* Aside from the difficulty of identifying potential entrepreneurs, there is the very important problem of avoiding overencouragement to those who really do not want to go into business. Because strong motivation is a necessity for success, it would be a mistake to encourage persons who lack the drive to make their businesses succeed. It is probably best to publicize the opportunities for business success and at the same time be clear about the risk and personal demands involved.

Finding potential minority entrepreneurs may be less difficult than one would suspect. Because of past discriminations that have discouraged minorities from entering business, a large pool of persons who have a desire to own their own business, but who have been held back, exists in the minority community. Minorities, dubious of their chances for advancement working for others, may also be more interested than the average person in controlling their own destinies. Also encouraging is the finding that, historically, entrepreneurs have tended to have relatively low levels of education, fathers who were farmers or laborers, and relatively difficult childhood circumstances.³³ They have had to overcome problems throughout much of their life, and it is the problem-solving skill that becomes important to the success of the business they form.³⁴

2. *Provide business opportunities for minority entrepreneurs.* Often the minority entrepreneur will have developed his own business opportunity. However, in many instances, the potential minority businessman, having had limited contact with the business establishment, will have difficulty visualizing a role for himself. Rather than waiting for individuals to develop good ideas, the process of black business development can be speeded up by aggressively seeking out business opportunities. In some instances this may mean developing franchising opportunities, and essentially taking advantage of somebody else's good idea. In other cases, it may mean contacting established businesses to attain purchase agreements for the supply of goods or services. The community development corporation has often been effective in identifying community needs and the resulting business opportunities.

3. *Provide the needed start-up financing and continuing lines of credit.* Many funding programs are already in existence and they seem to be growing in scope. Minority business development can succeed by using these capital sources effectively, but continued pressure is needed to ensure that these programs continue to expand and be made available. There is some danger that financing may disappear well before the end goal of increasing the market share of minority business

³³ O. COLLINS & D. MOORE, *THE ORGANIZATION MAKERS: A BEHAVIORAL STUDY OF INDEPENDENT ENTREPRENEURS* 15-38, 49-62 (1970).

³⁴ *Id.* at 38.

is accomplished, simply because the current enthusiasm may diminish. Continued effort should be made to make use of traditional capital sources as well.

4. *Provide the management counseling and training needed to raise minority entrepreneurial skills to a level that is competitive.* The key to a successful business is the owner-manager. In most instances, the business succeeds or fails depending on his ability to manage the resources at his disposal. Minority businessmen have often had little business experience of significant value, and therefore they are often less prepared to manage than their competitors. Certainly, many important entrepreneurial skills are life skills that are difficult to teach, and many minority entrepreneurs need little or no management help. But on the whole, the need for competent, dedicated counseling help is enormous. More than any other factor, such help can dramatically reduce the failure rate of minority business to less than that for white business.

Ideally, counseling should begin with the planning of the business idea and continue until the minority manager has raised his skill level to a point where it is equal to or better than that of his competition. Counseling is interrelated with all other facets of an effective minority business development program. It is useful in helping potential entrepreneurs to evaluate their personal potential; it is well-suited to the task of evaluating business opportunities; and it is capable of making full use of financing programs that might seem incomprehensible to the potential minority entrepreneur.

But it is probably most important in providing guidance to the entrepreneur as he begins to manage his resources. The consultant can instill basic skills, such as bookkeeping, provide advice about marketing, and help to make the business contacts that so often spell the difference between success and failure.

Accomplishing the transfer of business management knowledge is a difficult task. It requires tact, so as not to belittle the entrepreneur, who may feel insecure about his own abilities; it calls for training as well as advice, so that the entrepreneur can gain independence; and it requires many hours of consultant effort, made available on a flexible basis. Taking two hours to discuss an individual problem or evaluating the financial statements monthly is not enough. The effective consultant must be an extension of the business, the partner who is not a partner. The minority entrepreneur must have confidence in his consultant to the point where he wants to pick up the telephone and ask for help when he is confused or uncertain. Of all the resources needed for minority business development, the consultant is the most needed.

VI

THE OUTLOOK FOR MINORITY BUSINESS DEVELOPMENT

The outlook for minority business enterprise is bright, despite the fact that its impact on the total economy will not be great for a long time.³⁵ Minority business

³⁵ I recognize that this article has not dealt with the major task of opening entrepreneurial opportunities

will grow, because of an eager desire in the minority community to participate in business and because resources have been made available and are expanding (despite a national shift to environmental concerns).

Minority businesses operating in ghetto environments will probably require subsidies of various forms, such as tax advantages, job-training grants, and low-cost capital. But the transfer of management skills, offered freely, is the most important "subsidy" that the business establishment has to offer. The transfer of these skills will require many hours of person-to-person contact in each of several thousand individual minority business ventures. On a national level, the problems of minority enterprise development may seem overwhelming. But, with energetic application of our efforts to meet the needs of individual minority entrepreneurs, the national goal seems more attainable.

in the more dynamic sectors of the economy. In my opinion, significant shifts of minority enterprise into technologically-oriented industries of rapid growth potential will not be possible for several years. Certainly every opportunity to accomplish this shift should be taken advantage of as it arises. Hopefully, as minority people gain experience as employees in research positions, they will be able to generate important ideas for businesses that have the potential to grow more rapidly than the economy. One current example of a technology-based, black-owned company that shows great promise is Interface Technology, Inc., in Sacramento, California.