

**Barriers in Black Business:
Institutionalized Discrimination,
Internal Oppression, and Economic Detour**

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ABSTRACT

Studies show that when applying for business loans, Blacks are four times less likely than Whites to receive a loan (Bostic, Lamani, and Dedman, 1998). In 1997, Blacks constituted 12 percent of the nation's population but only owned 3 percent of the nation's small businesses, where as Asians constituted 3 percent of the nation's population and owned 12 percent of the nation's small businesses. This paper attempts to explore the reasons for the small percentage of Black owned businesses. Data was taken from 20 Black business owners during a 90-minute in-depth semi-structured interview. In these interviews many of the Black business owners and entrepreneurs stated they perceived specific barriers such as loan discrimination, redlining, lack of patronage, lack of wealth, and redlining when trying to open their businesses. They also stated they endured these barriers because of their race. This study explores the barriers the interviewees believe they face.

Introduction

It is important to society that we as researchers study the effects of discrimination and examine the stories of those who believed they have experienced discrimination. Studies done by Crocker (1991) show that when one experiences consistent discrimination, it can cause them to have high anxiety in situations where they believe they will be discriminated. This type of anxiety can cause high blood pressure, low self-esteem, and can discourage individuals from pursuing their goals. In order to understand the effects of discrimination, it is important that we study the experiences from individuals who believe they have been discriminated. In doing so, hopefully we can create programs that will help individuals who believe they were discriminated, maintain their self-esteem and confidence.

Because this study was not design to critically test if discriminatory barriers exist, it will draw its information from past studies that have examined the existence of discrimination, specifically institutionalized discrimination. In addition to past literature, it will then examine the factors Blacks believe prevent them from becoming business owners. Would past literature support that these barriers stem from institutionalized discrimination? What obstacles prevent established business owners from producing a lasting and successful business? The hypothesis is that Black business owners believe they experience barriers that are discriminatory and that past literature will support that some of these barriers exist and that they are unjust.

Institutionalized discrimination occurs when policies, rules, or laws embedded within an organization are created to deny access to a group of people based on race or their perception of that particular race. Examples of institutionalized discrimination are redlining, loan discrimination, economic

detour, and accumulation of wealth. Redlining is a practice of refusing to provide loans or insurance to a certain neighborhood. Loan discrimination occurs when loan approval rates or interest rates differ across groups with equal ability to repay (Levine et al, 2003). Economic detour is another example of redlining; it is when a group, based on race or sex is denied access to sell their product in a particular market or area. Economic detour, redlining, and loan discrimination stem from institutionalized discrimination because they are tools that are used to prevent minority entrepreneurs from becoming successful business owners.

Currently there are many individuals dedicated to researching the unjust barriers Black business entrepreneurs face, in hopes that their work will motivate people to fight against these inequalities. Research on discrimination is relevant to my project because it provides a framework and background of past work and results. This paper will discuss the main concepts and results researchers found when studying the barriers that black entrepreneurs and business owners face.

Accumulation of Wealth

Oliver and Shapiro's *Black Wealth and White Wealth* states that the lack of accumulation of wealth is a barrier for many Blacks and especially for Black entrepreneurs. They did a contemporary discrimination study examining the unequal wealth accumulation for Whites and Blacks. They match Whites and Blacks on key individual factors associated with asset acquisition and it demonstrated a persistence of large magnitudes of wealth difference. Then they did a regression analysis to see if when Blacks and Whites had identifiable factors that contribute to wealth, there was three-quarter of wealth difference that could not be accounted for. Therefore they concluded if White and Black households shared all the wealth-associated characteristics, Blacks would still confront a \$43,000 net worth handicap (Oliver and Shapiro, 1997, p. 174). Oliver and Shapiro (1997) further argue that there is a great disparity in wealth accumulation because of institutionalized discrimination. They state that the ideologies of prejudice and inequality were used to create Jim Crow laws, FHA policies, and redlining. The lack of accumulation of wealth can serve as a barrier when trying to fund a business because it hinders Blacks in two ways. First with a lack of wealth, many Blacks find it difficult to build a strong credit record. This is important because credit can determine whether they will be approved for a business loan. Second, even when Blacks have good standing credit, they are sometimes denied a loan because they do not have enough wealth to upkeep loan payments. Oliver and Shapiro believe that this lack of accumulation of wealth, which they attribute to slavery and discrimination, has become a barrier for Black entrepreneurs.

Accumulation of wealth affects the likelihood of receiving a loan and as a result affects one's ability to start a business. On the other hand what about Black entrepreneurs who have enough wealth to qualify for a loan. Can they experience loan discrimination and can this discrimination discourage them from starting a business?

Loan Discrimination

Blanchflower, Levine, and Zimmerman (1998) conclude that loan discrimination is a barrier that Black entrepreneurs encounter. Loan discrimination discourages Blacks from starting a business because they are not able to receive a loan to fund their business. Some Black business owners do not have enough capital to fund their business independently, so they apply for commercial loans from lending institutions to assist them with their funding. In their data from Federal Reserve Bank of Boston in 1996 they found Whites had ten percent of their loans rejected, versus twenty-eight percent for Blacks and Hispanics. After controlling for the large number of variables collected to establish the creditworthiness of the borrowers (including the amount of debt, debt/income ration, credit history, and loan characteristics) Blacks were still eight percentage points less likely to be granted the loan. Blacks are denied loans despite being as likely as some Whites to repay it, simply because the group of which they are a member has a lower repayment probability. In other words some qualified Blacks are denied loans because they are labeled as a group that is less likely to pay back their loans. This example is an illustration of loan discrimination.

Their data further supports their claims that Black owned firms are discriminated against in the small business credit market by not being approved for a loan based on the color of their skin.

Blanchflower (2003) attributes this disparity of loan distribution to loan discrimination. Loan discrimination prevents Black-owned firms from applying for loans, because Blacks fear being turned down due to prejudice and discrimination. If Black business owners have low capital and they fear applying for loans because of consistent loan discrimination than how are Black businesses able to stay in business? When a business owner receives a loan it can provide a cushion for them when their business has a bad season or does not reach their profit expectation for a particular year. If there is no cushion to help them, then their business may not survive through the bad seasons.

Bostic, Lamani, and Dedman (1998) also discovered that even though Blacks and Whites have similar equity capital, credit, and income, Blacks were four times less likely than their White counterparts to be approved for a loan (1998). Banks fail to lend more loans to Blacks because they label Black owned businesses to be high risk and non-profitable. These preconceived notions are not based on facts. Dedman (1998), for example includes several statistics of Blacks profiting well in business ownership, illustrating that Blacks have the same potential as Whites to be successful business owners.

Economic Detour

In addition to accumulation of wealth, and loan discrimination, researchers such as Robert Silverman (1998) conclude that economic detour (where laws and policies are created to restrict their participation in business on the open market and restrict their rights and freedom as economic agents) hampers Black businesses' ability to participate in the mainstream market and as a result these barriers hinder their chances of establishing and/or sustaining a business. Silverman, who did a contemporary study of Black businesses, includes a historical background to demonstrate how economic detour is a present problem that stemmed from the past. Redlining would be an example of both loan discrimination and economic detour because it is illegal and it is used to restrict certain people from residing or conducting business in a certain area. Since this restriction is based on race and class it is consider discrimination and this type of discrimination is what the interviewees reported to be a barrier when starting a business.

Patronage

Loan discrimination, accumulation of wealth, redlining and economic detour are barriers that stem from institutionalized and are design to impede the progress of Black business owners. However they do not conclude that patronage is a discriminatory barrier. Pierce (1971) on the other hand argues that patronage for any small business can become a barrier. The volume of patronage is affected by many factors: quality of service rendered the selection of merchandise to meet the customer preferences, organized efforts at sales promotion, and the appearance of the business, (1971). Therefore, if Black businesses want Blacks' patronage, owners should provide excellent service and offer merchandise at a fair price. The motto that good service will attract more customers is true for all small business.

Even though there is present research on the barriers Black entrepreneurs face, most of the data is quantitative. Most of the researchers used surveys. What this study attempts to do is interview Black people who are in different stages with their business. This paper will explore their perspective on what its like to be a Black entrepreneur in America. This paper will share some of their individual stories and struggles.

Method—Participants

For this study I interviewed 20 Black business owners in the Bay Area, CA. The types of businesses my interviewees owned were as different as their personal background. My interviewees are entrepreneurs in publishing, retail, consulting, book sales, fashion design, restaurant management, writing and medicine. They all had different backgrounds in terms of their business knowledge, why they started a business, and how they funded their business. Eighty percent used savings to fund business while fifteen percent used investors. Forty-five percent had prior business experience, forty-five percent leased office space versus forty percent who used their home as a storefront. Forty percent created a business because they didn't want to work for others, while twenty percent created a business to provide a need for the Black community. Fifteen percent of my interviewees had families who owned a business and ten percent owned two businesses.

Procedure

The interviews were recorded and later transcribed. I selected my business owners at a Juneteenth convention for Black business owners located in Oakland, CA and through a website directory of Black business owners. At the convention I introduced my research project and myself to every Black business that participated. After introducing my project I asked if I could have their business card to schedule an interview. The following week I contacted the owners from the convention and the owners from the web directory. After scheduling an interview with them I met them in a public area to conduct a 90-minute semi-structured interview. Most of my interviewees are located in the Bay Area, CA but two were located in the Ohio. In those circumstances I conducted a phone interview that usually lasted for an hour. I asked them to describe their journey of becoming a business owner, these questions range from very general demographic to personal questions. Examples of my main questions were why they decided to become business owners, what type of business did they own, how did this process encourage or discourage them from pursuing a business, and what advice would they give people trying to become business owners. The questions that were asked in the interview can be found in Appendix A.

Results

When I ask my participants to report barriers they believed they faced when starting a business, twenty percent reported that redlining was a barrier and that it decreased their market, which negatively affected their sales. Below are excerpts from a mortgage banker and a loan lender discussing their experience with redlining and loan discrimination.

Rick

I used to be a mortgage broker. I would describe properties to lenders and they were interested in the property, but when I would give them the address especially those in west Oakland, the lenders would come back with a 16 percent interest rate. Even though the person had A+ credit. I have done 3 appraisals for west Oakland. I did one for a White guy in El Cerrito and the papers flowed right through. For Black people the banks give you high interest rate points. Other ways banks discriminate is increasing the insurance in zip codes that cover bad areas. Some of the bad zip codes are those in East and West Oakland, North Richmond, East Palo Alto [primarily composed of minorities]. The land is valuable in these places so they won't tell you no for a loan but they will just charge a lot [interest and points].

Claire

There are discounts available for property but the banks won't tell you. You have to find out for yourself. If they don't want you in the area they won't give you any funding. Black people have been pushed out. Every business's cycle has its ups and downs. But when they are down they need a cushion to get them through the down. Other businesses get subsidized but Black businesses don't.

From my data, forty-five percent stated that loan discrimination is another discriminatory barrier they believe they experience. The following is an excerpt from a business owner describing her experience as an ex-loan lender. In this quote she also describes her experience with loan agencies when she was first starting her business.

Susan

When I was starting my business I didn't even want to talk to loan lenders and I was a loan lender. The bank is so bureaucratic. They make you bare your soul and then you still have to qualify. When you go to make a presentation they fall asleep. They push the paper from side to side without giving you a chance. There is a Redevelopment [loan] agency in Fillmore that is there to give money to businesses and upgrade buildings. They advertise their programs [but] I didn't apply because I know they won't give it [to me because] I am a female, and I am Black. The agency is there to bring Black business [back to Fillmore] because upper Fillmore is all White. The first session I went to there were 6 Blacks not qualified to get the loan. They are set up to fail and not set up to make money. When the [agency] gives you the loan they want to collateralize things like real estate for the business. This one guy who got the loan through the agency had to collateralize his house and I said why I would collateralize my house. You have young hungry businessmen and their too frustrated and they drop everything, you can only sustain that the kind of energy for five years. After that you develop drinking because your dream is dead.

One of the biggest barriers Black business owners in this sample believe they faced was lack of capital. Most of my interviewees stated they were not able to establish a business because they did not have capital, meaning they did not have enough savings to start a business or they were not able to receive a loan. To what extent is capital a barrier that Black business owners face? Eight percent of my interviewees used savings or investors to fund their business. They were hesitant to apply for a loan because they knew they had no or few assets. For most of them this was the first time a family member had started a business. Their lack of wealth became a barrier and their solution was to use their savings and friends as a means of funding their business.

Even though some of my interviewees believed some of their barriers were based on discrimination, they did not find this to be the case with lack of support or lack of business knowledge. For example twenty-five percent believed that lack of patronage is a barrier but not a discriminatory one. Also twenty-five percent stated that lack of business knowledge could be attributed to many external factors that are not necessarily due to discrimination. In describing why lack of support and lack of knowledge can be barriers, even though not discriminatory, Tyrone states:

I see a lot of Black businesses fail because [their business plan] is not setup and thought out properly. You have to have capital and cushion like money, don't take everything you have and expect to move in and have a short goal. Business takes five years you have to be careful with your capital and spending. You can't go in and make money and turn around and buy a top-notch car. You have to cut down cost. Your main objective is to make the business grow.

Here, Tyrone is claiming that some Black businesses fail because the owners are not managing their money correctly. Tyrone also goes on to comment that the owner's product can also cause a business to fail:

Black business aren't successful because they tend to want to do the same thing like hair, foods, fish, pretty much the same, you have to branch out.

On the other hand Rhett would disagree with interviewee Tyrone first comment, he and others argued that Black businesses are not successful because of lack of patronage from the Black consumers. He states:

Asians recycle their money in their community, but Blacks are not taught that. We are taught the Martin Luther King, taught the dream, love all your brothers and sisters and it become a nightmare. No way can we harness and recycle Black dollars. It is not what they do; this is what we do. There needs to be a revamping of education on economies. It is not about how you make it, but how you spend it.

The consensus from my interviewees is there are many factors that contribute to the failure and success rate of Black businesses. However there are testimonies that illustrate their experience as Black business owners and what they believe to be barriers that hinder their success.

Discussion

Past literature does support that barriers such as redlining, loan discrimination, economic detour and lack of wealth do exist and are discriminatory. Data collected from my interviewees would support my hypothesis that Black business owners believe they experience barriers that are discriminatory, when trying to start and sustain their business.

The purpose of this paper is to explore the experience of Black business owners and to investigate if they encounter barriers that are discriminatory. Because of the design of my project I am unable to state that these barriers do exist and that they are discriminatory. However based on past literature and my interviewees' testimonies, I can state that their perception of these barriers is a topic that should be further discussed and researched. In the future, researchers should examine how these perceptions of discrimination are formed and what methods we as scientists can use to study the affects of these perceptions. It is important to continue this research because past studies have demonstrated that stereotypes, discrimination, and prejudice affect an individual's ability to perform and excel in starting a business. In the meanwhile, this paper attempts to share the stories of Black business owners so society can see the significance of Black businesses and the urgency to continue the fight against discrimination.

It is important that the Black community have successful Black businesses because these businesses provide jobs within the Black community, inspire youth to become business owners, and stimulate revenue within the community. With more educational programs, jobs, and leadership positions, crime rates may decrease. Most Blacks value the idea of more jobs, better schools, and empowering youth. If businesses have the slightest chance of upholding these values, then it is important for the Black community to have Black businesses. Therefore, in order to maintain these values Black owners must provide excellent prices, service, quality and variation among their products and Black consumers should honor those efforts by patronizing Black own businesses. In saying that if these perceptions are true than banks should do everything in their power to regulate loan discrimination and redlining. Also banks and other organizations should create programs that can help Blacks with building credit and wealth. Lastly, researchers should be committed to finding new ways in which we can study perception of discrimination to understand if and how these perceptions negatively affect black's performance in business. Hopefully as a result of these future studies we as a society can work together to employ programs that will prevent the adverse effects of discrimination.

“Discrimination should motivate us more. We have seen how far we can come and we know we can rise no matter what they think about us. You have to believe given the opportunity we can rise and overcome and be whatever we want to be.”

Rosa

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