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22 Reasons Why Black Businesses Fail

A Report Brief

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Introduction

You find yourself reading this Report Brief because you have failed at business or you have an abiding interest in being an entrepreneur. As you know, businesses fail for many reasons. Each business failure has its own unique causes. You probably know that business failure rates are quite high. Eric Wagner reports in *Forbes Magazine* that eight out of 10 (80%) entrepreneurs fail within the first 18 months.[1] So it is not anomalous to hear frequent discussions concerning business failures. However, the characteristics of Black businesses are quite different from the average US business.

For example, based on 2007 data from the US Census Bureau's *Survey of Business Owners*, there is one Black-owned business for about every 20 Black Americans, while there is one business for about every 11 Americans.[2] In 2007, less than 6% of Black-owned businesses were large enough to have employees; while about 21% of American businesses were large enough to have employees. Average gross receipts for Black businesses were only about $71,000, while gross receipts were about $1.1 million for the average American business. Importantly, Black businesses fail at a higher rate than do White, Asian, or Hispanic businesses.[3] Our question, and the reason for this Report Brief, is "Why?"

Google the Internet concerning "Why Black businesses fail," and you will incur numerous hits. Each explanation is driven by the unique nature of the explainer's relationship with Black business. However, we were unable to identify a comprehensive list of reasons why Black businesses fail. Hence, in the spirit of the famous economist Alan Blinder, who catalogued the reasons why and when firms raise prices, we made an attempt to catalogue as many critical reasons as possible why Black-owned businesses fail.[4]

Through our analysis, we identified 11 structural, 6 cultural, and 5 psychological reasons why Black businesses fail. Take a moment now to consider the following list of reasons and their accompanying explanations.

[1] The *Forbes Magazine* article is here: http://www.forbes.com/sites/ericwagner/2013/09/12/five-reasons-8-out-of-10-businesses-fail/. Wagner attributes the failure statistic to *Bloomberg Press* (www.bloomberg.com).

[2] We present data for 2007, because they are the most recently available. Data from the 2012 *Survey of Business Ownership* will be available in 2015. The 2007 data are here: https://www.census.gov/econ/sbo/07menu.html.

[3] For a relatively recent and clear analysis of business survival rates across ethnicities, see Ying Lowrey's February 2005 work entitled *Dynamics of Minority-Owned Employer Establishments, 1997-2001* that was published by the US Small Business Administration.

[4] See Alan S. Blinder, "On Sticky Prices: Academic Theories Meet the Real World," in N. G. Mankiw, ed., *Monetary Policy* (Chicago: University of Chicago Press, 1994), pp. 117-154.

Structural Reasons

1. Incompatible mentality and lifestyle.— Black businesses fail often because entrepreneurs who initiate businesses don't have mentalities and lifestyles that accommodate business operations. Entrepreneurs may have fantabulous notions concerning what it means to own their own business: e.g., high income from profits, increased leisure time, status that comes with recognition in the community, etc. What they fail to imagine is the reality of business ownership—being "owned" by the business. Once new business owners recognize the persistent grind and the total emersion that business requires, they tire easily of the process. Afterwards, they begin to attempt to superimpose their mindset and lifestyle on the business. The entrepreneur and the business are incompatible. In this case, it is just a matter of time before non-committed entrepreneurs begins to make bad business decisions either because: (1) They are not well informed about business operations due to their absence from the business to meet their lifestyle requirements; or (2) they leave important decisions to others because they have reduced their personal involvement in the business. These conditions comprise the slippery slope that leads to business failure.

2. Lack of knowledge about business (the business).—This reason for failure is not unique to Black Americans. As just discussed above, some prospective entrepreneurs initiate a business as a result of their romantic image of serving as a business operator. On the other hand, they may seek to start a business just to prove that they are capable of being an entrepreneur. However, before undertaking their mission to establish their own business, they fail to study not only the science of business in general, but the science of business that is specifically related to the type of business that they intend to embark upon. The consequence of starting a new business is surely not a case where "What you don't know won't hurt you." It takes resources to start a new business, and one is well warranted in studying the science of business before setting out to achieve this goal. We all know that "knowledge is power"; and one will need all of the power that one can muster to be successful in business.

3. A poor "Business Plan."—This reason for failure has many implications; several of which we will explore below. Notably, this reason for failure is also not restricted to Black Americans. The reality is that it is critical that one has developed an excellent business plan if one wants to be successful in starting a business. In fact, a search for financing for a new business is usually one method for ensuring that a business plan is "tight." Most financial institutions will comb through a business plan with a fine-toothed comb before making a decision to finance a new business. Therefore, one would think that most business plans that result in financing to start a business are well developed. Unfortunately, this is not always the case—as we will see. Suffice it to say that if a business is going to be developed according to a business plan, and the business plan is inadequate in some way, then the business is likely to fail. Hopefully, our further elaborations on this topic will assist prospective entrepreneurs in developing more adequate business plans, which will improve prospects for business success.

One aspect of a sound business plan that is often overlooked, but that we will highlight here, is the requirement for a strong communications plan. Specifically, it is important for new entrepreneurs to have a solid sense of the unique value that their business represents, and that they have designed a well-defined method for conveying a clear message about the value of their business to the public. On the front- and back-side of this business plan requirement is the need to have communicated well with prospective patrons regarding the needs that the new business will fulfill. In addition, the business plan should include provisions for a continuous dialogue with customers after the business is initiated in order to ascertain ongoing changes in needs and new needs that can be fulfilled by the business.

4. Insufficient financial capital to support the firm until it can begin to generate sufficient revenue.—This reason for business failure is often related to the "poor business plan" case. That is, a business plan can be based on an inaccurate market study, the plan can overstate the potential market share that the new business might garner over the course of time, or a business plan's proposal for price setting can be inconsistent with reality. In any event, the business plan leads the entrepreneur to believe that the financing required to initiate and sustain the business is less than what will actually be required. Consequently, after the business is underway, the available financing and the revenues generated are not sufficient to sustain the business. Belly-up it goes.

On the other hand, an entrepreneur can ignore, at the margin, the financing required to develop the business to a point of self-sustainability as dictated by a good business plan. In his/her eagerness to start their own business, they charge ahead knowing that they have insufficient financing—hoping for a miracle or that some other turn-of-events will prove the business plan wrong. In many cases, the business plan is proven correct, and the entrepreneur finds that he/she must close the business down because they have insufficient financial capital to develop the business to the point of self-sustainability.

5. Absence of welcoming (Black-owned) financial institutions in the community.— Sometimes, it turns out that a business reaches the point of self-sustainability, and operates for a while without difficulty. Then the business, for whatever reason, encounters a rough patch. At that time, new financing may be required, and it is critical that welcoming financial institutions exist in the community that are open to extending new loans to existing businesses. Too often, such institutions (we define them as Black-owned) do not exist. When the Black entrepreneur reaches out to an unwelcoming financial institution, the managers of that institution may be unwilling to extend financing. The financial institution may have other plans for the business; i.e., wait for it to fail, then to resurrect it under different ownership—especially knowing that the business' troubles are only temporary. Of course, this scenario paints a picture of racial discrimination. Unfortunately, this can be the world that Black entrepreneurs live in.

6. Initiating a business at an inappropriate point in the business cycle.—While one might say that this reason for failure is not caused by a "poor business plan," it is related. In this case, the entrepreneur develops a business plan that is quite accurate and adequate, but it is based on an economic and business history that is about to change. For example, in 2007, an entrepreneur plans to open a residential real estate business based on data from 1996-2006. Of course the history reflects a picture of ever-increasing home prices with no end in sight. However, as we all now know, that history changed in 2007, and the real estate industry saw no end to trouble for the next five years. The moral of this story is that one must take care to monitor the business cycle as part of a decision to start a new business. Specifically, one must ensure that the data used in developing a business plan are not devoid of business cycle effects. One must also be able to read the tea leaves and confirm that a business cycle downturn is not just over the horizon before starting a new business—unless one has sufficient financial capital to weather the economic storm.

7. Poor business location.—This reason for failure is another one that is tied to a "poor business plan." Everyone knows that, in business, its "location, location, location." So why do businesses locate in the wrong places? There are at least three reasons for this outcome. First, it could occur that an entrepreneur develops a sound business plan. However, the plan is based on a community that, due to desegregation or gentrification, changes just as the business gets started. In this case, the business plan developer did not do his/her homework in order to uncover the changing demographics that were about to ensue in and around the location of the new business.

Second, it could turn out that a business plan is inappropriate because, in the absence of data about the specific community in which the new business is to be established, the entrepreneur constructs the business plan using data from a community with similar demographics. Like humans, no two communities are identical. Therefore, there is no certainty that outcomes will be identical across demographically similar communities. In this case, and on a cost-benefit analysis basis, the entrepreneur is warranted in collecting data about the community in which a new business will be located. This is the only way to ensure that the business plan analysis will produce the right go/no-go decision when it comes to starting a new business.

Third, as noted above, sometimes entrepreneurs ignore their business plans. In this case, an entrepreneur is guided by the business plan to an appropriate location. However, the cost of capturing that location may exceed what the entrepreneur is willing to pay. Consequently, the entrepreneur identifies another location, again hoping that a miracle or some other turn-of-events will prove his business plan wrong. Unfortunately, as we noted above, many times it turns out that business performance in a less than optimal location will prove the business plan correct. Failure again.

8. Too much competition and too little cooperation (vertical integration).—A common pitfall for many, including Black, entrepreneurs is that they will see thriving businesses of a certain variety, say barber shops, and assume that they can carve out a niche in that same business in the same general location. In fact, when researching the business plan, they may seem to uncover reasons why their new business will be successful; namely, that there is sufficient demand based on the area's population. Unfortunately, there are certain intangibles that can't be measured. It often turns out that the existing, thriving businesses possess certain intangibles that are difficult to replicate. Therefore, when the new entrepreneur starts a business in competition with existing businesses, the former finds out that the competition is too stiff—that the new business cannot survive. This is a case of too much competition.

What the new entrepreneur might have examined was the structure of the industry in which the thriving businesses operated. While it may not be a good idea to compete directly with the thriving businesses, it may be a good idea to develop a business that is ancillary or auxiliary to the thriving businesses.

For example, in the case of barber shops, the new entrepreneur might find that the existing businesses would gladly support a Black barber supplier in lieu of their current White supplier. Therefore, by establishing a supplier business, the new entrepreneur can be successful. This is a case of finding a niche in the vertical structure of the industry in which existing thriving businesses are already operating; i.e., a type of Black vertical integration. In this way, Blacks assume control of a new layer in the structure of barbering business; moving from control of just barber shops to control of the barber shop supplies business.

At some point, if enough barber shops and suppliers can be brought in line, a new Black entrepreneur can come along and fill in a further upstream niche in the barbering business by actually manufacturing barber supplies. In this way, Black entrepreneurs can control the entire vertical structure of the barbering business.

9. Poor product: The quality of the goods/services produced are of insufficient quality.—This is a transparent outcome. No customer wants to feel that the value of what he/she receives in goods/services is less than what he/she pays for the goods/services. This can happen for a variety of reasons. For example, in an effort to reduce cost, an entrepreneur may source from a manufacturer that produces poor quality goods. On the other hand, the entrepreneur could simply charge a relatively high price for the goods/services that are sold. In addition, with respect to services, an entrepreneur can skimp on staff training, which results in poor quality services being delivered. Or, again, the business could charge a relatively high price for the services that are delivered, which could be of high quality. In any event, customers will complain, and if appropriate action is not taken to right the situation, customers will go away, and the business will fail. The only, and the important, lesson here is that entrepreneurs should provide their customers with value in goods/services that is comparable to the prices charged.

10. Poor business presentation.—There is an old adage: "It takes money to make money." Another, related, adage is: "If you look successful, then you will be successful." These two adages spell out the reality of most businesses. If an entrepreneur wants to be successful, then he/she must be very professional and must look successful. If you require advice from an investment adviser, you want to talk to someone who has had personal success investing. One way for a successful investor to reflect his success is to reflect some degree of ostentation. When new entrepreneurs initiate a new business and don't take sufficient care to make it, and themselves, look successful, then potential customers will doubt their ability to perform, and will go in a different direction. Consequently, we can agree that with business it is always "location, location, location." But it is also "presentation, presentation, presentation."

11. Natural disasters.—As entrepreneurs, some events are beyond our control. Natural disasters are among those uncontrollable phenomena. It is fruitless to seek to control natural disasters. All we can do is to be prepared when they hit. Mainly, this means having sufficient disaster insurance. Therefore, it is ridiculous to have a business plan that excludes an entry for the cost of natural disaster insurance. Unfortunately, too many entrepreneurs fail to give sufficient attention to natural disasters and they have no natural disaster insurance, or the insurance that they purchase is insufficient to help them restore their business in rapid fashion after a natural disaster strikes. This is a guaranteed path to business failure. Quite often, customers experience their greatest need following natural disasters. If your business is not open immediately following the disaster or shortly thereafter, customers lose confidence in the business—something that is very difficult to restore. The longer the delay in resuming full operations following the disaster, the greater the chance that customers will tire of waiting and move to other businesses to meet their needs. This can push new businesses onto the slope that leads to failure.

Cultural Reasons

12. Racial discrimination by non-Blacks.—Black businesses can fail when non-Blacks engage in racial discrimination in the form of refusing to become customers of the business, refusing to supply or contract with the business, engaging in extreme anti-competitive behavior that is motivated by race, and deciding against extending financing to the business. Actually, such discrimination is logical on the part of non-Blacks when one considers that their interests lie in supporting non-Black businesses. Most logical persons will agree that individuals generally feel most comfortable with those who look, think, and act like them. Therefore, it should be no surprise when Black businesses experience racial discrimination. It is true that discrimination is against the law of the land; however, enforcement is very weak. In fact, Black businesses should consider themselves extremely lucky when they find that they don't encounter racial discrimination. They should expect racial discrimination from non-Blacks, and should build their business strategy with this potential reality in mind.

13. Discrimination by Blacks; i.e., "someone else's ice is colder."—Unfortunately, Black businesses may also find that Black Americans can be a source of racial discrimination. Black Americans who discriminate against Black businesses suffer from self-hatred. Remember the "Black Dolls" study that was first conducted by Drs. Kenneth and Mamie Clark in the 1950s. They found that the psychological conditioning of many children that were tested caused those children to prefer White dolls over Black dolls. While there is much in today's world that can combat the kind of psychological conditioning that can cause Blacks to prefer all things White, many of the conditions that existed during the 1950s remain today. Therefore, some Black Americans have an aversion to patronizing Black businesses because they are under the misperception that "someone else's ice is colder"; i.e., that products offered by White entrepreneurs represent better values than the products offered by Black entrepreneurs.

On the other hand, some potential Black customers will avoid patronizing a Black business because they have had negative experiences with Black businesses in the past; essentially, they had the type of experiences that we referred to above under "poor product." As a result of those experiences, these potential Black customers turn toward non-Black businesses for the goods/services that they consume.

It is very difficult for a Black business to gain the patronage of potential Black customers who are bent psychologically on patronizing non-Black businesses. However, it may be possible to secure the patronage of potential Black customers who have had a **"Poor product"** experience. In the latter case, Black businesses must simply ensure that they always provide "high-quality products." If Black businesses provide high-quality goods/services, then they can win and retain these customers.

14. Insufficient cultural capital.—Black businesses can fail because the entrepreneurs that run those businesses don't have sufficient "cultural capital." Here, cultural capital means the practical knowledge and intangible qualities that accrue to individuals who are embedded in the households and communities where entrepreneurship is part and parcel of everyday living. In other words, entrepreneurship is an intrinsic component of the culture. If an individual has never participated in the entrepreneurial process, it is hard to imagine just what it takes to be an entrepreneur. Therefore, when such individuals embark on an entrepreneurial journey, they may not be able to navigate the route successfully.

Ivan Light and Steven Gold are among experts who highlight the importance of cultural capital in successful entrepreneurship (see their 2000 book *Ethnic Economies*). Jorge Borjas' *Heaven's Door* (1999) is another book that discusses cultural capital. The fact that this topic has received considerable attention signals its importance in achieving success as an entrepreneur. Therefore, if you are contemplating entrepreneurship, but have no cultural capital in this area, then you might reconsider. On the other hand, if you are about to start a business and have some cultural capital, you should evaluate whether your cultural capital is of the high-quality variety; i.e., whether your life experiences with business involves successful ventures.

15. Too much Black love.—How can too much Black love cause Black businesses to fail? It's simple. Since Martin Luther King, Jr. and the Civil Rights Era, too many Blacks identify themselves as lovers and pacifists. They love everybody and they want everyone to love them. They are willing to open their communities and their homes to anyone who flashes a friendly smile and presents a semblance of caring. What these Blacks fail to realize is that, in the US, business is a form of combat. It can be economic warfare. Therefore, one must protect one's territory at all cost.

If Black businesses are to be successful, they must, at a minimum, thrive in their own community. This means repelling outsiders who want to benefit from operating in the Black community. In essence, it is a zero sum gain. If outsiders are benefitting, then insiders are losing. When potential patrons of Black businesses show their "love" by patronizing non-Black businesses in the community, they reduce the chances that Black businesses will succeed.

Therefore, in order to be successful, Black businesses may have to conduct an information campaign in the Black community that emphasizes the need to abide by the first law of nature: "preserving and loving your own to the exclusion of others." It may also be beneficial to inform the Black community that one should not seek to help others before ensuring that one can help one's self. These Black businesses should help "free-loving" Black Americans come to know the history of how non-Blacks have focused their concern on themselves, to the exclusion of concern about Black Americans. Only when they stand to benefit do non-Black businesses wink and smile in the Black community, showing a façade of caring, while taking all that they can get. Black Americans must recognize that this taking causes Black businesses to fail.

16. Insufficient cooperation and exclusiveness.—There is no need to belabor the point here. In the above entry (number 8) on "**Too much competition…**," we discussed the potential benefits of Black businesses cooperating and facilitating the vertical integration of an industry. Here, we simply want to re-emphasize the fact that such vertical integration can only occur when downstream Black businesses agree to cooperate with upstream Black businesses. When this cooperative arrangement breaks down, then upstream Black businesses can fail. Consequently, it is important for upstream Black businesses to maintain close communications with the downstream Black businesses to ensure that this cooperation is maintained. Further, it is through such close cooperation and communications that separate Black businesses that are organized in a vertically integrated arrangement can intensify their exclusive arrangement, exclude non-Black businesses, and create conditions where all of the Black businesses involved can succeed.

17. Risk hating behavior.—In the world of risk, there are three choices: Be a risk lover, be risk neutral, or hate risk. If you are in business, but find that you are indifferent to risk (risk neutral) or that you hate risk, then you are probably in the wrong business. Business is all about taking risks. If you find that you are always taking actions to avoid risk, then maybe you are not made for business. Business is a high-wire act with no net; it is living on the edge. If your business is to succeed and grow, risk will always be an integral part of the equation. Hence, if you hate risk, you are likely to make decisions that cause your business to suffer and fail. If you are a risk hater, your best bet is to get out of business before business puts you out.

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Psychological Reasons

18. Insufficient confidence.—Essentially, confidence is faith. "But without faith it is impossible to please him…" (Hebrew 11:6). If an entrepreneur doesn't believe that he/she will be successful, that lack of confidence will spill over and affect their actions and the actions of those around them. It was faith that transformed a drug-addicted and uneducated Malcolm Little into El-Hajj Malik El-Shabazz, one of the most important Black Nationalist leaders of the second half of the 20th century who possessed one of the keenest minds the world has ever known. An entrepreneur needs that kind of faith to be successful. The entrepreneur must have faith that he/she will succeed against all odds, and that faith must be unyielding.

We believe that Black businesses fail because Black entrepreneurs don't have that faith. One reason they don't have that faith is because too many have been reared in a Christian tradition that features a White God. Accordingly, they develop a consciousness that says to them: This White God is likely to address the needs of Whites first because he is White before he is likely to address my needs because I am Black. The worship of a God who is not always present reduces one's faith, and makes the believer impotent to produce and create positive outcomes under dire circumstances. Consequently, when times become dark, many Black entrepreneurs lose hope and give in to failure. To be successful, Black entrepreneurs must fashion an internal source of strength and hope that will be ever-present and ready to support the entrepreneur in times of need. With such a belief system in place, the entrepreneur will be able to act as God commanded Adam; i.e., to have dominion over all of the earth (Genesis 1:26), but especially all things related to his/her business.

19. Fear of success.—Many Black entrepreneurs are first-generation. In fact, these entrepreneurs come to entrepreneurship with the hope of "making it big in business." However, coming from a poor or meager background, they fear their own potential success. They ask: "If I make it big, how do I handle the success? Will I squander the wealth like so many formerly famous athletes and entertainment stars? Will I rise only to fall? What will my friends and associates say when I fall? Clearly, these worries only matter if the entrepreneurial endeavor is successful. But even before they get to that point, they begin to fear. This fear permeates their being and affects all that they do. Consequently, unwittingly, they make business decisions and exhibit business behaviors that are inconsistent with success. Success flees from these Black entrepreneurs and their businesses fail.

20. Lack of "killer instinct."—Christianity is in the DNA of most Black entrepreneurs. We are taught to love; particularly Jesus, who is depicted as White. Therefore, when we engage in business on a competitive basis with White or non-Black entrepreneurs, it is in our psyche to love them and to not outcompete them. When we are faced with a decision to beat the competition, on a subliminal level our minds will tell us that we don't really want to take action that will put the competition out of business. Remember, they too have families with mouths to feed. This thinking is diametrically opposed to capitalism. In the dog-eat-dog world of capitalism, the object of the game is to destroy the competition and to create a monopoly. But given our makeup and background, we find it difficult to play the game effectively. In our world, the media programs Black Americans to kill Black Americans. We have no compunction about destroying Black life. But when it comes to non-Black lives, we cannot bear to pull the trigger. This lack of a killer instinct when it comes to the mainly non-Black competition, causes Black entrepreneurs to not take action that will position their business for greater success. A continuous display of this type of behavior increases the probability that Black businesses will fail.

21. Fear of harm if successful.—US history is replete with cases of harm coming to Blacks with successful entrepreneurship experiences. Harm was inflicted on entire Black communities that experienced entrepreneurial success; viz., the massive riots that struck Wilmington, North Carolina in 1898, Tulsa, Oklahoma in 1921; and Rosewood, Florida in 1923. Moreover, the historical record includes innumerable cases of efforts to harm or impose terror on Black entrepreneurs who were more successful than their White or non-Black counterparts. This history is known and is embedded deeply in the psyche of Black entrepreneurs who develop an innate fear of success. They know that their success can create hatred in the hearts and minds of their White and non-Black competitors, which can be operationalized by harmful acts on the part of the former with respect to the latter. As a result, this fear of harm may cause Black entrepreneurs to aim for a low point on the success pole. But in doing so, they may fail to even reach that point. Their business may, in fact, fail.

22. Immediate gratification syndrome.—When individuals are denied materialistic pleasures of life for an extended period, and then those pleasures are made available, it is difficult for the individuals to refuse to partake of those pleasures. Couple that scenario with the fact that the media perpetually bombards us with the idea of immediate gratification of created desires. This deadly combination characterizes the situation that potential Black entrepreneurs face. As noted, many Black entrepreneurs are first-generation with meager beginnings, who are exposed to the nation's powerful media. They are ripe for exhibiting immediate gratification behavior. Therefore, when their business begins to experience some profitability, they may be motivated to use their monetary success to gratify immediately their perceived desires. This can be detrimental to a strategy of reinvesting profits to stimulate business growth. As we all know, a lack of investment at critical junctures in a businesses' development can cause the business to fail.

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Conclusion

We have considered quickly 22 reasons why Black businesses fail. Whether you are embarking on a new entrepreneurial adventure or commiserating over a recent business failure, you are likely to find relevant thoughts among the reasons. Of course, the purpose of this analysis is to bring to the surface clearly the reasons why Black businesses fail so that entrepreneurs can develop strategies for avoiding failure. We hope that our explanations are descriptive enough so that Black entrepreneurs can use them to develop countervailing structural, cultural, and psychological reasons for why Black businesses succeed. While we would like to think that many Black businesses will benefit from this Report Brief, the truth of the matter is that, if just one Black business avoids failure and succeeds, then the Report Brief would have been worthwhile. Let us all act to turn the reasons for Black business failure into ashes in the mouths of naysayers, and to construct mountains of Black business success!

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