

1-1-2010

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Recommended Citation

Nicole S. Dandridge, *RACIAL ETIQUETTE AND SOCIAL CAPITAL: CHALLENGES FACING BLACK ENTREPRENEURS*, 32 W. New Eng. L. Rev. 471 (2010), <http://digitalcommons.law.wne.edu/lawreview/vol32/iss3/2>

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RACIAL ETIQUETTE AND SOCIAL CAPITAL: CHALLENGES FACING BLACK ENTREPRENEURS

NICOLE S. DANDRIDGE*

INTRODUCTION

Historically, successful free enterprise has been more difficult for minority entrepreneurs than it has been for whites. Certain barriers limit access to capital and industry markets as well as access to skills and work experience that facilitate proper business development and sustainability.¹ Merely starting up a business does not mean it will fare well and lead to sustainable self-employment. Notwithstanding an unmistakable boost in minority business startups and the fact that entrepreneurial activity is fifty percent greater among black Americans as compared to whites, black-owned firms have lower survival rates than nonminority firms.² A contributing cause of this disparity has been, and continues to be, connected to the barriers and challenges rooted in our nation's not-long-past racial-caste system and oppression of blacks. Inequity between the races has created a social condition that directly affects an entrepreneur's access to social capital, which is vital to the successful emergence and continued advancement of one's business.

This Article considers social etiquette practices in the United States and suggests that these practices have infected our free-enterprise system with racial bias. By considering socio-racial ineq-

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1. Timothy Bates, William E. Jackson III & James H. Johnson, Jr., *Advancing Research on Minority Entrepreneurship*, 613 ANNALS AM. ACAD. POL. & SOC. SCI. 10, 10 (2007).

2. Candida Brush et al., *Building Ventures Through Civic Capitalism*, 613 ANNALS AM. ACAD. POL. & SOC. SCI. 155, 156 (2007).

unities against the general framework of social capital, the reader will better understand socioeconomic challenges that face black entrepreneurs. Access to social capital (i.e., access to people who build business capacity, networks, and opportunity) and meaningful engagement in this valuable social business construct is more arduous for black entrepreneurs than it is for their white counterparts. Limited social capital translates into limited opportunities for black entrepreneurs to convert valuable social business relationships into financial support that will ultimately fuel successful market entry and growth.

I. RACIAL-CASTE SYSTEM AND BUSINESS INEQUITIES

A. *Racial-Caste System*

Throughout most of the twentieth century, a racial-caste system contributed to the shaping of the United States minority-business community.³ From 1877 through the mid-1960s, this system was legally enforced through the codification of Jim Crow laws, which had the effect of legitimizing anti-black racism.⁴ Statutes severely regulated social interactions between the races, making “Jim Crow etiquette” the social norm.⁵ This etiquette served as the habituated “micropolitics of day-to-day living,”⁶ whereby segregationist etiquette underscored the social inferiority of blacks in relation to whites.⁷ Violation of Jim Crow etiquette placed one’s very life and the lives of one’s family at risk.⁸ The *Jim Crow Guide* offers these simple rules that blacks were prescribed to follow in social situations with whites:

1. Never assert or even intimate that a white person may be lying.
2. Never impute dishonourable intentions to a white person.
3. Never suggest that the white is of an inferior class.
4. Never lay claim to, or overly demonstrate, superior knowledge or intelligence.
5. Never curse a white person.

3. Bates, Jackson & Johnson, *supra* note 1, at 11.

4. See David Pilgrim, Jim Crow Museum of Racist Memorabilia, What Was Jim Crow? (Sept. 2000), <http://www.ferris.edu/htmls/news/jimcrow/what.htm> [hereinafter What Was Jim Crow].

5. *Id.*

6. Randall Kennedy, *Martin Luther King’s Constitution: A Legal History of the Montgomery Bus Boycott*, 98 YALE L.J. 999, 1010 (1989).

7. *Id.*

8. See What Was Jim Crow, *supra* note 4.

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- 6. Never laugh derisively at a white person.
- 7. Never comment upon the physical attractiveness of a white person of the opposite sex.⁹

More than a set of rigid laws against blacks, Jim Crow etiquette was a way of life and prevalent not only in the southern states but, rather, all over the United States.¹⁰ Prosegregation efforts further distanced blacks from equal access to networks that ultimately led to vital capital building, thereby greatly limiting opportunities for effective black business advancement.

All major societal institutions reflected and supported the oppression of blacks, reinforcing second-class citizenry.¹¹ In the early 1900s, institutions of higher learning did little to develop individuals from ethnic minority groups to become successful entrepreneurs.¹² College-educated minorities, for the most part, were relegated to nonbusiness careers.¹³ It follows that, as institutional outcasts of resource-rich white business society, blacks had little opportunity to build effective integrated social networks for the development and support of entrepreneurship.

B. *Business Inequities*

In spite of the setbacks proffered through racist social etiquette, from 1987 to 1997, the number of minority-owned businesses grew at an annual rate of seventeen percent.¹⁴ Notwithstanding, in 1992, black-owned firms had the lowest sales and receipts per total number of firms across all business ownership groups.¹⁵

Estimates of closure rates of black-owned firms from 1992 to 1996 show a disparity in business outcomes. For example, black-owned firms had higher closure rates (26.9%) than white-owned firms (22.6%), and the percent of all firms in 1992 no longer operat-

9. STETSON KENNEDY, *JIM CROW GUIDE: THE WAY IT WAS* 216-17 (Fla. Atl. Univ. Press 1990) (1959).
 10. See What Was Jim Crow, *supra* note 4.
 11. See *id.*
 12. Bates, Jackson & Johnson, *supra* note 1, at 11 (“Between 1912 and 1938, . . . 73 percent of black college graduates nationwide became either teachers or preachers.”).
 13. *Id.*
 14. Rafael Efrat, *Minority Entrepreneurs in Bankruptcy*, 15 *GEO. J. ON POVERTY L. & POL’Y* 95, 97 (2008).
 15. U.S. BUREAU OF THE CENSUS, 1992 ECONOMIC CENSUS: CHARACTERISTICS OF BUSINESS OWNERS 7 tbl.A (1997) [hereinafter *CHARACTERISTICS OF BUSINESS OWNERS*], available at <http://www.census.gov/prod/3/97pubs/cbo-9201.pdf>.

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ing in 1996 was 22.5%.¹⁶ Similarly, 1992 profits, employment size, and sales illustrate the same gap in business outcomes.¹⁷ Profitability of black-owned firms was far lower than white-owned firms: only 13.9% of black-owned firms enjoyed a net profit of at least \$10,000 compared to 30.4% of white-owned firms.¹⁸ Mean sales for black-owned firms (\$59,415) were nearly one-fourth of white-owned firms (\$219,190).¹⁹ Here, a few large white firms are not responsible for skewing the mean. Median sales for white firms were double that of black firms, and the percentage of white firms with sales of \$100,000 or more were more than double the percentage of black firms.²⁰ Black-owned firms also had a significantly smaller work force, hiring an average of only 0.63 employees as compared to white-owned firms that hired an average of 1.80 employees.²¹

This Article frames the concept of social capital in more detail in a later section. However, it is important to note here that familial relationships play a vital role in social network-building, which is inherent to the concept of social capital and the value it presents to an emerging or existing entrepreneur. Of particular interest is that, in 1992, 53.1% of all white business owners had a self-employed family member before starting a business as compared to 33.6% of black business owners.²² Limited opportunities to receive vital business training that occurs in a family business contribute to lower rates of black-owned businesses.²³

Entering the new millennium, obtaining and maintaining successful free enterprise has continued to be difficult for blacks. As noted in the 2000 U.S. Census, 11.8% of white workers were self-employed business owners, while only 4.8% of black workers were employed as such. Further, business-ownership rate differences between blacks and whites have remained comparatively steady for most of the twentieth century.²⁴

16. Alicia M. Robb & Robert W. Fairlie, *Access to Financial Capital Among U.S. Businesses: The Case of African American Firms*, 613 ANNALS AM. ACAD. POL. & SOC. SCI. 47, 54 tbl.3 (2007).

17. *Id.*

18. *Id.*

19. *Id.*

20. *Id.* at 54.

21. *Id.*

22. ROBERT W. FAIRLIE & ALICIA M. ROBB, RACE AND ENTREPRENEURIAL SUCCESS: BLACK-, ASIAN-, AND WHITE-OWNED BUSINESSES IN THE UNITED STATES 104 tbl.4.1 (2008).

23. *Id.* at 105.

24. Robb & Fairlie, *supra* note 16, at 47.

II. FRAMING ACCESS TO SOCIAL CAPITAL: WHAT IS IT?

It will be useful to first review a selection of definitions that describe access to social capital. My findings indicate that, for the most part, access to social capital is framed in similar ways. What follows is a description of a few frameworks and an introduction to how each one may influence entrepreneurship.

A. *Defining Access to Social Capital*

Davidsson and Honig state that access to social capital can be defined as access to social networks, which are “provided by extended family, community-based, or organizational relationships [and] are theorized to supplement the effects of education, experience and financial capital.”²⁵ Application of this framework indicates that, to the extent that emerging or existing entrepreneurs have access to familial, community, and organizational relationships, these connections may add to the benefits realized through business education, experience, and financial capital. What of an entrepreneur who has little-to-no benefit from education, experience, or financial capital to supplement? For entrepreneurs with these particular deficiencies, social capital may be the catalyst in acquiring (1) valuable business knowledge otherwise available only through formal education; (2) vital business experience and training relevant to their industry; and (3) the ability to raise funds via lenders and investors to gain purchasing power for the acquisition of real capital equipment used in the production of goods or services as well as the ability to access liquid mediums that represent wealth or other forms of capital.

Eijk, Dolfsma, and Jolink contend that “[a]s a function of the configuration and content of the network of more or less durable social relations, one can access social capital either directly or indirectly. Social capital thus emerges as the intended, instrumental *or* unintentional result of social interaction or exchange.”²⁶

Using this framework, depending on the strength of their social networks, entrepreneurs may acquire social capital directly or indirectly through social exchange. Here, access to social capital

25. Per Davidsson & Benson Honig, *The Role of Social and Human Capital Among Nascent Entrepreneurs*, 18 J. BUS. VENTURING 301, 307 (2003).

26. Rene van der Eijk, Wilfred Dolfsma & Albert Jolink, *No Black Box and No Black Hole: From Social Capital to Gift Exchange* 3 (Erasmus Research Inst. of Mgmt., ERIM Report Series Reference No. ERS 2005-040-ORG, 2005), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1335702.

emerges as whom you know—the size, quality, and diversity of your personal and business networks—as well as those you do not know, if you are indirectly connected via your networks. Accordingly, an entrepreneur may be greatly enriched if she shares a social-network connection with someone who has an outside connection with access to valuable assets, such as business education, experience, or financial capital.

Another corresponding framework is offered by Adler and Kwon. They state that

[t]hrough investment in building their network of external relations, both individual and collective actors can augment their social capital and thereby gain access to valuable contacts and information; and by investing in the development of their internal relations, collective actors can strengthen their collective identity and augment their capacity for effective governance.²⁷

This framework explains that social capital may be used as the vessel through which entrepreneurs find valuable contacts and information that may be used to increase their collective ability to define expectations, grant power, and verify performance. Through composite interactions, entrepreneurs may find that being included in a social network empowers them, at least in part, to be engaged in setting industry expectations, to have power over industry and capital market decisions, and to have a hand in validating industry performance. Social networks may give those entrepreneurs privileged enough to be a part of this system of connections the potential power to develop their own set of self-serving governing processes and procedures, which may then lock out entrepreneurs who reside outside of the network.

B. *Keeping Social Capital Simple*

In the age of “googledom,”²⁸ an intelligible definition of social capital found at Dictionary.com states that it is “[a]n economic idea that refers to the connections between individuals and entities that can be economically valuable.”²⁹ The operative term here is “eco-

27. Paul S. Adler & Seok-Woo Kwon, *Social Capital: The Good, the Bad, and the Ugly* 93 (USC Marshall Sch. of Bus., Working Paper MKT 03-09, 2009), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=186928.

28. Urban Dictionary, <http://www.urbandictionary.com/define.php?term=googledom> (last visited May 13, 2010) (defining “googledom” as “[t]he all-encompassing informational domain created by google.com’s many websites and services”).

29. Dictionary.com, <http://dictionary.reference.com/browse/social+capital> (last visited May 13, 2010) (defining “social capital”).

nomically valuable.” The author recognizes the limitations of social capital turning into financial wealth by stating that economic value “*can be*” had through “connections between individuals and entities.”³⁰ Consequently, if an entrepreneur finds little to no economic value through engagement in the networks inherent to social capitalism, there may be little point to investing his or her time in this endeavor.

III. WHAT MAKES SOCIAL CAPITAL EFFECTIVE?

Social capital can be considered effective if it results in financial capital opportunities for an entrepreneur. This section explores how limited social capital may translate into limited opportunities in which to convert valuable social business relationships into financial support that will ultimately fuel successful business emergence and growth.

A. *Social Networks*

Typically, a white person’s social ties are mostly to other whites and take place in majority-white environments.³¹ Residential segregation based on race amplifies majority-group importance and enables a negative, simplified, and standardized conception or image (stereotype) of minority-group members.³² “[O]nly 8% of Americans with networks of . . . two or more [individuals] reported discussing ‘important matters’ with a person of another race.”³³ This type of racial-network segregation develops a crippling ignorance that operates to greatly restrict one’s understanding of and willingness to interact with and trust people of other races.³⁴

Since social capital is an essential bridge used to support successful business emergence,³⁵ the social networks and relationships to which an entrepreneur has effective access prior to and after business start-up have an impact on how well her product or service will be received by the market. Translating the fruits of social networking into early profit-bearing activity sets the stage for a fu-

30. *Id.* (emphasis added).

31. Xavier de Souza Briggs, *Bridging Networks, Social Capital, and Racial Segregation in America* 5 (John F. Kennedy Sch. of Gov’t, Harvard Univ., Working Paper No. RWP02-011, 2003), available at <http://web.hks.harvard.edu/publications/getFile.aspx?Id=35>.

32. *Id.* at 7.

33. *Id.* at 5.

34. *Id.* at 10 (citation and internal quotation marks omitted).

35. See Davidsson & Honig, *supra* note 25, at 302.

ture sustainable business.³⁶ Even in the beginning of new business life, a financial value emerges as the product that makes investment in social capital worthwhile. Consequently, blacks may be less likely to enter into and sustain financially successful businesses if they have reduced access to or have smaller social networks.³⁷

B. *Financial Capital*

1. Family Net Worth

Especially at start-up, many entrepreneurs finance their businesses through family funds. In 2000, black households had a median net worth of \$7,500 as compared to \$79,400 for that of non-Hispanic white households.³⁸ Furthermore, for every dollar of financial resources (money in bank accounts, stocks, bonds, or home equity) for which the average white family has the benefit of use, the average black family has eight cents of financial resources.³⁹ These striking disparities are connected to the history of U.S. slavery, its ensuing Jim Crow laws, and long-standing, racist guiding principles.⁴⁰ Today the problem continues through blacks' limited right of entry into the majority-white power network that persists with its command of financial resources,⁴¹ which profoundly affects the ability of a black entrepreneur to utilize family funds to start-up a business.

2. Credit Market

The extension of credit by financial institutions is drastically lower for racial minorities located in racial-minority neighborhoods as compared to whites with comparable socioeconomic characteristics, notwithstanding the fact that lending to minorities can be lu-

36. *See id.* at 302-03.

37. ROBERT W. FAIRLIE & ALICIA M. ROBB, U.S. DEP'T OF COMMERCE, DISPARITIES IN CAPITAL ACCESS BETWEEN MINORITY AND NON-MINORITY-OWNED BUSINESSES: THE TROUBLING REALITY OF CAPITAL LIMITATIONS FACED BY MBEs 24 (2010), available at http://www.mbda.gov/?section_id=6&bucket_id=16&content_id=6469&well=entire_page.

38. U.S. CENSUS BUREAU, NEW WORTH AND ASSET OWNERSHIP OF HOUSEHOLDS: 1998 AND 2000, at 12 (2003), available at <http://www.census.gov/prod/2003pubs/p70-88.pdf>.

39. Wendi C. Thomas, "A Harder Hill to Climb"—Building Wealth Takes More than Bootstraps, MEMPHIS COM. APPEAL, Mar. 30, 2008, available at 2008 WLNR 6088182 (Westlaw).

40. *Id.*

41. *Id.*

crative.⁴² This inequity in lending practices is often referred to as “redlining,” where credit is offered with undesirable terms or is largely unavailable, based on where the applicant resides.⁴³ Numerous minority businesses, by consequence of their limited credit options and social business network connections, delve into unfavorable and more costly options for financial capital.⁴⁴

Perhaps as a reflection of our current economy, some financial institutions are augmenting creditworthiness by accepting “social collateral” from indigent credit seekers.⁴⁵ This type of collateral finds its value by evaluating borrowers’ social networks or reputation as opposed to traditional physical or financial collateral.⁴⁶ Here, the strength of personal relationships can directly affect business credit procurement.⁴⁷ Social capital is used to obtain credit, thereby adding financial value to the business.

3. Social Capital and Financial Value

Economic transactions are not only stand-alone exchanges. The financial benefits that are realized by entrepreneurs through financial exchanges are largely rooted in social relationships and networks that form episodes of repeated exchanges.⁴⁸ As a result, throughout the life of a business, social capital plays an integral role in continuing the stimulation of financial exchange.

Financial capital may be realized through the acquisition of money or through cutting costs. It follows that effective social capital can offer entrepreneurs information at lower cost that may ultimately pay off as a business advantage.⁴⁹ Information, influence, and solidarity are all possible benefits of social capital that can enrich entrepreneurs without spending significant additional money to

42. David E. Runck, Note, *An Analysis of the Community Development Banking and Financial Institutions Act and the Problem of “Rational Redlining” Facing Low-Income Communities*, 15 ANN. REV. BANKING L. 517, 520 (1996).

43. *Id.* at 519; see also FROM REDLINING TO REINVESTMENT: COMMUNITY RESPONSES TO URBAN DISINVESTMENT 2 (Gregory D. Squires ed., 1992).

44. FAIRLIE & ROBB, *supra* note 37, at 22.

45. Thierry van Bastelaer, *Imperfect Information, Social Capital and the Poor’s Access to Credit* 4 (Univ. of Md. Ctr. for Institutional Reform & the Informal Sector, Working Paper No. 234, 2000), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=260058.

46. *Id.*

47. *Id.*

48. Steffen Lippert & Giancarlo Spagnolo, *Networks of Relations and Social Capital* 2 (The Econ. Research Inst., Stockholm Sch. of Econ., Working Paper No. 570, 2005), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=716522.

49. Adler & Kwon, *supra* note 27, at 103.

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achieve the same.⁵⁰ In this manner, financial value is realized through the gains that an entrepreneur makes by utilizing valuable business knowledge, clout, and strategic alliances, all obtained via his or her social network(s).

IV. ARE BLACK ENTREPRENEURS CONVERTING SOCIAL CAPITAL INTO FINANCIAL CAPITAL?

Parsing out the idea of social capital and making it separate and distinct from financial capital is difficult at best. The discussion surrounding social capital inevitably brings us back to the acquisition of financial resources, and there begins the circular reasoning. However, notwithstanding the somewhat artificial division of social and financial capital, it is useful to first consider our nation's social history and ponder its impact on today's black entrepreneur.

In recent decades, minority business progress has been found to be connected to human capital gains of entrepreneurs.⁵¹ Human capital is generally described as *what* you know, as compared to social capital, which is largely defined as *who* you know. Since advances in minority entrepreneurship are linked to human capital gains (the economic value of an entrepreneur's skill set), perhaps reliance on skill-betterment in isolation may reap a superior payoff for minority entrepreneurs than interaction with social networks.

Minority entrepreneurs still experience inequality compared to nonminority entrepreneurs, and the lack of capital-market access continues to prevail. Credit market inequities are partly to blame for the comparatively high failure rate of black-owned firms.⁵² Obtaining a line of credit was the number one problem mentioned by minority entrepreneurs during both business start-up and normal operations.⁵³

CONCLUSION

Since social capital is made effective by the strength of network ties and the frequency of social and formal interactions, with the ultimate goal being financial betterment of its players,⁵⁴ for all of the networking and time devoted to relationship-building, the ques-

50. Eijk, Dolfsma & Jolink, *supra* note 26, at 4-5.

51. Timothy Bates & William Bradford, *Traits and Performance of the Minority Venture-Capital Industry*, 613 ANNALS AM. ACAD. POL. & SOC. SCI. 95, 95 (2007).

52. P. Köllinger & M. Minniti, *Not for Lack of Trying: American Entrepreneurship in Black and White*, 27 SMALL BUS. ECON. 59, 74 (2006).

53. *See id.* at 73-74.

54. Davidsson & Honig, *supra* note 25, at 309.

tion remains: What is gained by black entrepreneurs for participating in this social dance? Do black entrepreneurs ultimately reap financial reward, enjoy economic investment, or benefit from resultant business referrals? When one peels back the layers of social theory and political science, is not the primary purpose of an entrepreneur investing in social capital to ultimately earn economic value through building financial capital and an economically successful, sustainable free enterprise?

At the intersection of black entrepreneurship and social capital, the quandary is coming up with an equation that equals financial value. Given our recent history of a racial-caste system in the United States, and its undeniable lingering social effects, there are heavy challenges to face. Financial value, the ultimate reward of investment in social capital, is chiefly bestowed upon whites. Jim Crow social etiquette lingers on through the practices of social network players, business lenders, and investors and continues to impede blacks' progress in building effective integrated social networks that ultimately bear valuable financial fruits.