



STEVEN ROGERS
STANLEY ONUOHA
KAYIN BARCLAY

Sources of Capital for Black Entrepreneurs

In 2017, a perplexed Harvard Business School professor asked a colleague why there was a need for a new course focusing on African-American business leaders and entrepreneurs. With all sincerity, he asked, “What is the difference between a white entrepreneur and a black entrepreneur?” In response, the professor who created the course (and is also the first author of this note) cited two major differences.

First, black entrepreneurs, specifically those who pursue non-black customers often practice “racial concealment.” They preemptively hide the fact that their company is black-owned because of the concern that whites would not patronize their business. For example, Robert F. Smith, whose net worth is estimated at \$5 billion, is a wonderful philanthropist with donations of \$20 million to the African-American Museum of History and Culture, and \$40 million to the 2019 graduates of Morehouse College to pay off their student loans.¹ Smith does not have his photo on the website of the company that he founded, Vista Equity Partners. This is an investment firm with over \$46 billion of assets under management. He excluded the photo because he feared he “might lose out on opportunities if investors and executives knew he was African-American.”²

The second major difference between black and white entrepreneurs is their access to capital. Throughout U.S. history, it has been almost impossible for black entrepreneurs to raise debt or equity capital.

This note was written primarily for black entrepreneurs, to help them raise capital. The second objective was to recognize the capital providers who are part of the solution to the problem. The note reviews the evidence that black entrepreneurs have less access to capital than do white entrepreneurs, examines the reasons for that disparity, reflects on the societal impact, and – uniquely – compiles a directory of entities that have funded black entrepreneurs.

¹ Kaur, H., “What to know about Robert F. Smith, the man paying off Morehouse grads' student loans,” *CNN.com*, May 20, 2019, <https://www.cnn.com/2019/05/19/business/robert-smith-billionaire-morehouse-gift-trnd/index.html>.

² Alexander, K., “Who is Robert Smith?: A quiet billionaire makes some noise with \$20 million gift to the African American museum,” *The Washington Post*, September 24, 2016, https://www.washingtonpost.com/national/who-is-this-robert-smith-a-quiet-billionaire-makes-some-noise-with-20-million-gift-to-the-african-american-museum/2016/09/23/547da3a8-6fd0-11e6-8365-b19e428a975e_story.html?utm_term=.238460b24978.

HBS Senior Lecturer Steven Rogers; independent researcher Stanley Onuoha (Founder & Managing Partner at Fruition Consulting, Harvard University Ed.M.); and Kayin Barclay (MBA 2019) prepared this note as the basis for class discussion with the assistance of Darlene Le.

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Unequal Access to Capital

Racial disparities in access to capital are sharp. For instance, in 2018 blacks received less than 2% of all capital deployed by equity investors and only 1.7% of debt capital guaranteed by the Small Business Administration. These percentages are paltry for a black community that makes up 13% of the U.S. population and over 7% (2.5 million) of the country's entrepreneurs³. As one black entrepreneur stated, "It's just white folks giving money to white folks. We might as well buy lottery tickets to fund our ideas."⁴

Denied access to outside capital, most black entrepreneurs resort to self-funding their ventures. Unfortunately, this source of capital is woefully insufficient. The typical black family in America has a miniscule portion of the wealth of a white family. In 2016, white families had a median net worth of \$171,000, compared with \$17,600 for blacks.⁵ In the city of Boston, the disparity is even worse, with white families at \$247,500 compared to \$8 for blacks.⁶ Four centuries of ugly history account for such differences. For 246 years (1619-1865), most blacks were enslaved, worked for no compensation, and could not accumulate wealth. For the next 98 years (1865-1963), legal and ultimately unconstitutional, anti-black discrimination by the government (i.e. redlining) and every private industry in the country, including banking, impoverished the typical black family. The most recent 56 years (1963-2019) have seen systemic racial biases in education, housing, criminal justice, healthcare, and other institutions work against the economics of black households. The results? While whites were able to accumulate and transfer wealth from generation to generation, this vehicle for prosperity never existed for the vast majority of blacks. Therefore, it is virtually impossible for most black entrepreneurs to self-fund a venture through the seven stages of entrepreneurship.

Table 1 Seven Stages of Entrepreneurship

1.	Ideation
2.	Start-up
3.	Survival
4.	Pivot
5.	Stability
6.	Growth
7.	Exit

Source: Adapted by casewriters from Rogers, Steven. *Entrepreneurial Finance: Finance and Business Strategies for the Serious Entrepreneur*. 4th ed. New York: McGraw-Hill Education, forthcoming.

³ Darity Jr, W. et al. "What We Get Wrong About Closing the Racial Wealth Gap." Samuel DuBois Cook Center on Social Equity, 2018, pages 34-35, from https://socialequity.duke.edu/sites/socialequity.duke.edu/files/site-images/FINAL%20COMPLETE%20REPORT_.pdf.

⁴ Friess, S., "In Chicago, black entrepreneurs seeking venture capital face excessive scrutiny and discrimination," *Belt Magazine*, February 6, 2018, <https://beltmag.com/black-entrepreneurs-discrimination/>.

⁵ Jan, T., "White families have nearly 10 times the net worth of black families. And the gap is growing." *The Washington Post*, September 28, 2017, https://www.washingtonpost.com/news/wonk/wp/2017/09/28/black-and-hispanic-families-are-making-more-money-but-they-still-lag-far-behind-whites/?utm_term=.cb80e1d36c78.

⁶ Johnson, A. "That was no typo: The median net worth of black Bostonians really is \$8," *Boston Globe*, December 11, 2017, <https://www.bostonglobe.com/metro/2017/12/11/that-was-typo-the-median-net-worth-black-bostonians-really/ze5kxC1jJelx24M3pugFFN/story.html>.