

# **Ethnic Solidarity and Black Business:**

## ***The Case of Ethnic Beauty Aids Distributors in Chicago***

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**ABSTRACT.** This paper examines the development of a separate economic niche for black entrepreneurs in Chicago's ethnic beauty aids industry. It argues that this economic niche developed in response to advantages black entrepreneurs had in mobilizing ethnic resources in the black community. The paper's findings lend support to general theoretical arguments stating that ethnicity, race, and other symbols for identity function as low-cost screening devices for evaluating the likelihood that trading partners will honor economic contracts, particularly in a market setting where formal market mechanisms are not fully developed. The findings are based on a series of in-person interviews with Korean, Jewish and black distributors of ethnic beauty aids in Chicago. Although this paper focuses on a single market niche, its conclusions indicate that greater attention needs to be paid to the effects of social, political, economic and structural factors on minority business development.

### I

#### **Introduction**

CURRENTLY, THE RELATIVE IMPORTANCE of class and ethnic resources in minority business development has become the focus of debate among scholars interested in the study of entrepreneurship. For instance, Bates (1998) points out that, in general, minority business development is shaped by relative advantages that minority entrepreneurs have in mobilizing financial and human capital. Consequently, he argues that differences in the levels of entrepreneurial activity between black Americans and Asian immigrants primarily result from the varying ability of entrepreneurs in each group to mobilize class resources, and not from factors linked to either group's access to respective ethnic networks. However, other schol-

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ars have argued that ethnic resources do play an important role in the entrepreneurial process, particularly in settings where capital constraints exist and where formal market mechanisms are underdeveloped. For instance, Landa (1994, 28) argues that, "under conditions of contract uncertainty, where the legal framework for the enforcement of contracts is not well developed, the identity of a potential trading partner matters." In such settings, "kinship, ethnic, and religious stature as well as other symbols of identity. . .serve as low-cost signaling and screening devices that allow a trader to choose to trade with only those traders who one perceives to be trustworthy or reliable in honoring contracts" (Landa 1994, 29).

In general, Bates (1998) makes an important point concerning the link between financial resources, human capital, and successful entrepreneurship. However, these factors seem to be more predictive of successful entrepreneurship when considered within the context of well developed markets. In less formalized market settings, it is hypothesized that ethnic or group resources have a stronger influence on entrepreneurial activity. In this paper, this hypothesis concerning the relationship between market structure and ethnic resource mobilization will be examined within the context of black business development in the ethnic beauty aids industry.

The ethnic beauty aids industry specializes in the manufacturing, distribution and sale of haircare products and cosmetics for black consumers. As a result, this industry focuses on developing consumer markets almost exclusively in the black community. The ethnic beauty aids industry is divided into two distinct economic niches. One niche focuses on retail sales in the black community. This niche is embedded in a highly formalized market setting, and entrepreneurial success is strongly influenced by relative advantages that entrepreneurs have in mobilizing financial resources and human capital. In fact, despite their placement in a market context that provides goods and services to a predominantly black clientele, Korean and Jewish entrepreneurs maintain a high profile in the retail niche of the ethnic beauty aids industry, while black entrepreneurs are rarely found in this market niche. However, black entrepreneurs are highly visible in the other niche of the ethnic beauty aids industry. This niche focuses on the sale of professional products to black beauticians and barbers. Unlike the retail niche, the professional niche of the ethnic beauty

aids industry is smaller, less formalized, and driven by more intense social interactions between economic actors.

In this paper, the development of this separate economic niche for black entrepreneurs in the ethnic beauty aids industry is examined from the perspective of Korean, Jewish and black distributors. The central argument of this paper is that this economic niche developed in response to advantages black entrepreneurs had in mobilizing ethnic resources in the black community. *This paper is divided into two sections.* The first discusses the basis of ethnic solidarity, as it relates to business and consumerism, in the black community. The second section describes some of the benefits that black entrepreneurs accrue from the mobilization of ethnic resources in the black community. Together, these two discussions highlight the importance of ethnic resources to black entrepreneurship. Before presenting this paper's findings, a brief discussion of such resources is warranted.

## II

### **Conceptualizing Ethnic Resources**

YOON'S (1991, 1995) DISCUSSION of the distinction between class and ethnic resources is one of the more succinct in contemporary scholarship. He clearly conceptualizes ethnic resources as those resources and forms of aid coming from co-ethnics. According to Yoon (1991, 318), "Ethnic resources may be material (e.g., financial aid), informational (e.g., business advice), or experiential (e.g., job training)." In addition, ethnic resources entail support from ethnic customers, ethnic employees, ethnic suppliers, the ethnic media and ethnic organizations. With this definition, Yoon is able to draw a clear distinction between ethnic and class resources. For instance, Yoon describes class resources as those that are derived from private property, wealth, and investments in human capital. He points out that, "Class resources are available only to a segment of an ethnic group whose social and economic position in society enabled them to invest in human capital or to be endowed with these resources through their parents" (1991, 318).

Yoon acknowledges that in some respects class and ethnic resources seem to overlap, however he stresses that the theoretical distinction is important for an analysis of entrepreneurship. Light and Bonacich (1988, 19) addressed this issues as well, pointing out that, "Although hard to

differentiate at the margins, class and ethnic resources are different phenomena, each of which is capable of promoting entrepreneurship." This point raises important questions concerning the relative significance of each to minority business development, and the conditions under which one type of resources would be more important to successful entrepreneurship than the other.

Under certain conditions minority entrepreneurs may benefit from mobilizing ethnic resources, while under others they benefit from mobilizing class resources. This outcome might bear on the size of a particular enterprise, the nature of competition, or the characteristics of the market in which a given group of minority entrepreneurs are embedded. These points are important to this analysis, since they illustrate that the decision to mobilize class and ethnic resources can be influenced by a variety of social, political, economic, and structural factors.

In the case of Korean and Jewish entrepreneurs, intensified competition from co-ethnics and other entrepreneurial groups may elevate the importance of class resource for successful entrepreneurship. In fact, Korean and Jewish entrepreneurs have historically entered the black community with relatively higher levels of capital than black entrepreneurs. This allowed them to substitute class resources for ethnic resources in order to optimize the economic efficiency of their businesses. In fact, the tendency to substitute class resources for ethnic resources may be magnified by the relative level of economic formalization in the market niches in which Korean and Jewish entrepreneurs are located.

On the other hand, black entrepreneurs face greater capital constraints than other entrepreneurial groups, and historically have been concentrated in underdeveloped market niches in the black community (Boyd 1991, 1996; Butler 1991; Bates 1993, 1994, 1997; Oliver and Shapiro 1994; Silverman 1998). Although such disadvantages are well documented, there is disagreement concerning the ability of black entrepreneurs to mobilize ethnic resources in response to them. For instance, Light (1972, 1980) makes several references to the lack of ethnic solidarity among blacks, identifying it as a factor contributing to failed entrepreneurship. However, this is contradicted by Butler (1991), who identifies a tradition of mutual aid and self-help in the black community which facilitates entrepreneurship. His study indicates that black entrepreneurs have a history of mobilizing ethnic resources in response to capital constraints. From this per-

spective racial antagonism, discrimination and subsequent capital constraints led to the cultivation of ethnic resources among blacks. Similarly, Boyd's (1996) discussion of entrepreneurship among black women highlights the importance of race and gender specific resources in the maintenance of an ethnic niche. In fact, the unique role of ethnic resources in the black community can be viewed as a byproduct of social cleavages and economic discord in society.

### III

#### **Methodology and Sample Characteristics**

THE DATA USED IN THIS PAPER COMES from a series of formal interviews with Korean, Jewish and black distributors of ethnic beauty aids in Chicago. These interviews were conducted between January 1996 and August 1996. The respondents for this study were identified with the assistance of scholars in the Chicago area, local business and community organizations, and through various local business directories. When contacted for interviews, informants were asked to be part of an academic study of minority-owned businesses in the ethnic beauty aids industry. During the interviews informants were asked a series of open-ended questions about the organization and operation of their businesses. The questions were drawn from an interview guide that was prepared in advance. The interview guide consisted of fourteen items and thirty-eight probes. The interviews were tape recorded, and the tapes were transcribed verbatim. Each interview was administered at the given informant's place of business during normal hours. The interviews ranged from one to two hours in length. At the end of the interviews, informants were asked to respond to a twenty-five item survey. The survey contained closed-ended questions focusing on the general characteristics of a distributor's business, and his or her perceptions of the business climate in which it was embedded. The surveys took approximately five minutes to complete.

In total, six Korean-owned distributorships were identified in Chicago. The owners of three of these distributorships agreed to be interviewed. One other Korean distributor was not interviewed, but responded to the *twenty-five item survey*. The other Korean distributors in the population declined to be interviewed. However, information was gathered about their businesses through respondents and via field observations. Also, the

owners of two Jewish-owned distributorship were identified in Chicago. One of them agreed to be interviewed. The other was not interviewed, but responded to the twenty-five item survey. In addition, the owners of four black distributorships were identified in Chicago. Two of these individuals agreed to be interviewed. The other two black distributors declined to be interviewed, but information was gathered about their businesses through respondents and via field observations. The sample of distributors was not large, but it captured the core characteristics of the various types of distributors in the population. This conclusion was arrived at after visiting all of the distributorships in the population, and through discussions about each of them with the distributors who were interviewed.

The distributorships in the sample ranged in size. One of the black distributors had six employees, the other had fourteen. Also, two of the Korean distributors had fifteen employees, one had over sixteen employees, and the other two had over thirty-five employees. In addition, one of the Jewish distributors had less than five employees, and the other had more than sixteen. In terms of gender, all of the distributors were men, with the exception of one black woman who distributed ethnic beauty aids. With regard to age, four cohorts were represented among the distributors. Two of the distributors were in their thirties, three were in their forties, one was in his fifties, and two were over sixty. In terms of human capital, all of the distributors were also well educated. One of the distributors had finished two years of college, and the other seven had completed their bachelors degrees. In addition, all of the distributors had been in business for over ten years.

#### IV

##### **Ethnic Solidarity in Black America**

LIGHT (1972) DISTINGUISHED BETWEEN CHINESE, Japanese and black entrepreneurs along the lines of ethnic resources. He concluded that a lack of ethnic cooperation curtailed business development among blacks. In many ways, this theme was a rearticulation of earlier scholarly work on black entrepreneurship. For instance, DuBois (1968) made references to the marginality of black-owned businesses in several passages of *The Negro in Business*, and Frazier (1962) portrayed the black businesses that emerged in cities like Chicago and New York during the early 1900's in a

similar light. These characterizations perpetuated negative stereotypes of black entrepreneurs, particularly those focusing on critiques of ethnic cooperation in the black community. However, there is little evidence to support conclusions that the black community lacks a business tradition based on mutual aid and ethnic solidarity. In fact, several scholars have documented the existence of such a tradition (Stuart 1969; Washington 1971; Butler 1991; Drake and Cayton 1993).

In the past, some scholars failed to identify the importance of ethnic solidarity in the black community. This is unfortunate, since an ideology has developed in black America based on ethnic solidarity. In many respects, the development of this ideology was a byproduct of the deprivation and exploitation that black Americans face in society. This ideology is articulated in many ways. When used in reference to black entrepreneurship, it is expressed through the concept of the doctrine of the double-duty dollar. Drake and Cayton (1993, 431) described how the doctrine of the double-duty dollar stressed, "the virtues of buying from Negroes—of making the dollar do 'double-duty': by both purchasing a commodity and, 'advancing The Race.'" Historically, this doctrine was articulated by prominent black leaders such as Booker T. Washington, as well as local black ministers (Washington 1971; Drake and Cayton 1993). Through the years, it has become a component of popular sentiment in the black community.

The doctrine of the double-duty dollar reflects the desire of blacks to maintain a strong ethnic economy in the black community. Because of this, it is an important element in the maintenance of a black niche in the ethnic beauty aids industry. The importance of supporting an ethnic economy in the black community was identified by the black distributors of beauty aids in Chicago. For instance, they advertised their businesses as "black-owned," and they highlighted the fact that they sold products manufactured by black companies. The marketing strategies of black distributors focused on tapping into ethnic networks, and black consumers were responsive to them. In fact, the support black consumers displayed for a strong ethnic economy in the black community was also identified by some of the Korean and Jewish distributors in the ethnic beauty aids industry. For instance, one Jewish distributor described how the doctrine of the double-duty dollar was articulated in the market place. He described how it precluded his entry into the professional niche in the ethnic beauty

aids industry since, "many black retailers and customers prefer to buy from black-owned companies." The black distributors who were interviewed stressed this same point. The doctrine of the double-duty dollar was internalized by black customers and professional clientele, and it affected decisions concerning whom they chose as business associates.

The doctrine of the double-duty dollar is crucial to understanding why some black businesses succeed, despite the fact that many are undercapitalized and surrounded by larger, and better financed, Korean and Jewish-owned businesses. Black distributors in the ethnic beauty aids industry are at a disadvantage, in terms of financial muscle, when compared with Korean and Jewish distributors. In fact, they find few customers in the retail niche of the ethnic beauty aids industry because of intense price competition, and the need to develop economies of scale. However, black distributors dominate the smaller professional niche in the ethnic beauty aids industry, which focuses on selling professional products to black beauticians and barbers in a less formalized and expansive market setting. For example, one black distributor pointed out that, "95 percent of our business is professional." The other black distributor pointed out that her business serviced over five-hundred black salons. This market niche was much more limited than the retail niche, which targets millions of black consumers in the Chicago area.

## V

### **The Benefits of Being Black**

THE BLACK DISTRIBUTORS WHO WERE INTERVIEWED pointed out that there were only four or five black distributors of beauty aids in the Chicago area. Despite the small number of black distributors, they serviced almost all of the black salons in the metropolitan area. Although smaller than the retail niche, the professional niche was important to the long-term survival of the ethnic beauty aids industry. This was because manufacturers of ethnic beauty aids used black salons to test market and launch new products. Black distributors filled a vital role in the marketing of products to black salons, since they were responsible for organizing classes for black beauticians and demonstrating how to use new products. Being black made it easier for distributors to fill this role in the ethnic beauty aids industry. This was the case since ethnic resources facilitated the development of rapport

between black distributors and black beauticians, allowing the professional niche of the ethnic beauty aids industry to remain insulated from competition from better capitalized Korean and Jewish entrepreneurs.

The inability of Korean and Jewish distributors to mobilize ethnic resources in the black community limited their access to the professional niche of the ethnic beauty aids industry. This was because it was necessary to establish a high degree of trust between the distributor and salon operator in order to build confidence in new products. Other characteristics of the professional niche also discouraged Korean and Jewish entrepreneurs from entering. For instance, the small size of the professional niche and its limited potential for sales made it unattractive to Korean and Jewish entrepreneurs who relied on mass marketing and economies of scale to stabilize their businesses in the long-run.

One black distributor made a number of comments about how the nature of the professional niche in the ethnic beauty aids industry discouraged Korean and Jewish entrepreneurs from entering. For example, he pointed out that "Koreans" stay out of the professional market since they specialize in volume sales. He believed that "Koreans" did not try to sell to black beauticians and barbers because, "it's not enough money for them." This black distributor also believed black beauticians preferred to buy from other blacks when given the opportunity, and this discourage Korean and Jewish merchants from attempting to do business with them. Similar observations were repeated by other distributors.

The black distributors believed it was advantageous to do business in the professional niche of the ethnic beauty aids industry. One black distributor made this comment: "Most of the history of the industry states that if you are dear to the salons and the stylists, you tend to have a longer reign. More so than if you focus on retail. Because as I said, retail is awfully expensive, and if you limit yourself, and not get the salons in your corner, it's a short lived endeavor. That's what I'm finding out."

This distributor went on to discuss how the professional niche of the ethnic beauty aids industry was more stable for black entrepreneurs than the retail niche, since there was less price competition. In fact, many manufacturers recognized the importance of tapping directly into ethnic networks in the professional niche of the ethnic beauty aids industry, and, as a result, they gave individual black distributors exclusive rights to sell their professional products to black beauticians and barbers. This enabled

the distributor to have a monopoly on the sales of a particular product. Because of this, the use of exclusive rights limited price competition in the professional niche of the ethnic beauty aids industry. However, when a professional product developed name recognition in the black community, its manufacturer would begin to market it as a retail product. When this occurred the professional sales of a product would rapidly diminish. In this manner, black salons were effectively serving as test markets for products that would ultimately end up in the retail market. Of course, moving an established professional product to the general market increased the demand for new professional products, which created a cycle of new business for black distributors. As a result, this type of marketing activity illustrates how ethnic resources insulated black distributors, despite the existence of strong linkages between the professional and retail niches of the ethnic beauty aids industry.

The professional niche of the ethnic beauty aids industry also buffered black distributors in other ways. For instance, the presence of the doctrine of the double-duty dollar allowed black distributors to survive in an otherwise hostile marketplace. One black distributor made this point, "Because we are a force, especially manufacturers who are professionals, if they were to come to Chicago, they know they'd have to see a few of us (black distributors), if they want the professional business." In fact, being black was an important asset to distributors in the professional niche of the ethnic beauty aids industry. One black distributor pointed out that although all manufacturers understood the value of black distributors in the professional market, white manufacturers were extremely interested in developing a name for their professional products by selling them through black distributors. This black distributor emphasized that when a white manufacturer identifies a black distributor, "they'll break your door down to get into your shop." The utilization of black distributors was a virtual necessity in the professional niche of the ethnic beauty aids industry.

In addition to the benefits black distributors gained from their ability to mobilize ethnic resources in the professional niche of the ethnic beauty aids industry, the professional niche also had lower capital requirements than the retail niche. This was because black salons carried fewer products and had less turnover than retail outlets. Therefore, it was not necessary for black distributors to maintain large product inventories, and establish economies of scale through mass marketing. One black distributor dis-

cussed the advantages of this smaller market: "I mean yes we only make X amount, where as we could make a lot more, but it's less headaches because we could rely on those dollars much more than we can rely on the retail dollars. We also don't have to spend quite as much in advertising."

The business strategy followed by black distributors was almost the exact opposite of the strategy adopted by Korean and Jewish distributors. Black distributors focused on a small market and limited sales, while Korean and Jewish distributors focused on a mass market and volume sales. Black distributors benefit from exclusive rights to sell professional products and the subsequent stability in demand and prices they produced, while Korean and Jewish distributors bought products on the open market and they faced high levels of price competition. These business strategies were developed in response to the degree to which each group of entrepreneurs could mobilize class and ethnic resources. The ability of black distributors to mobilize ethnic resources in the black community gave them an advantage in the professional niche of the ethnic beauty aids industry, while the ability of Korean and Jewish distributors to mobilize class resources, particularly capital, gave them an advantage in the retail niche of the industry.

## VI

### **Conclusion**

THIS PAPER REFINES OUR UNDERSTANDING of the relationship between ethnic resources and black entrepreneurship. Despite the general validity of the arguments forwarded by Bates (1997) concerning the role of capitalization and human capital for business success, this paper's findings lend support to claims made by others concerning the importance of ethnic resources in undercapitalized and less formalized market settings. For instance, these findings parallel Landa's (1994, 29) discussion of the use of ethnic, religious, and other symbols of identity as low-cost, "screening devices that allow a trader to choose to trade with only those traders who one perceives to be trustworthy or reliable in honoring contracts."

In fact, Landa's discussion can be linked to this paper's finding that in specialized niches, such as the professional niche of the ethnic beauty aids industry, ethnic resources were necessary factors in determining whether black distributors would succeed. The doctrine of the double-duty dollar

gave black entrepreneurs an advantage in this economic niche. In fact, the preference of black beauticians and barbers to do business with black distributors virtually precluded market penetration for better-capitalized Korean and Jewish distributors. In this market context, the identification of a business as "black-owned" provided black beauticians and barbers with a low-cost screening device that could be used when evaluating distributors of ethnic beauty aids. As a result, black distributors were considered to be trustworthy, and it was thought that they only dealt in high quality goods which were not readily available for purchase in the general retail market. This had the effect of limiting the level of direct competition black distributors faced from Korean and Jewish entrepreneurs.

This is an important point, since it highlights the role of ethnic resources for black businesses in the black community. Despite the ability of Korean and Jewish distributors to mobilize class resources in the retail niche of the ethnic beauty aids industry, black distributors were able to stabilize their economic position by mobilizing ethnic resources in the professional niche of the industry. The identification of this adaptation has a number of implications for future research. On the surface, it indicates that future studies need to address issues related to ethnic resources in conjunction with those related to business capitalization. This is particularly important in research dealing with emerging markets and market niches which are somewhat underdeveloped. Also, the effects of consumer preference on minority business requires further exploration, since the impact of consumer preferences will differ depending upon the social, political, economic, and structural composition of a given market.

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