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Latinx Entrepreneurship Across Contexts: Opportunities and Challenges

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Latinx[1]-owned businesses in the United States generated over $470 billion in 2012. In recent decades, Latinxs have become the fastest growing group of business owners in the U.S.[2] While growth in Latinx business ownership over the past decade is impressive, persistent barriers remain to their economic success as evidenced by substantial disparities in Latinx business outcomes compared to other ethnoracial groups.

Latinx business owners typically have fewer resources to start their business, hire fewer employees, and have less prosperous businesses, yet few remedies are available to alleviate the business challenges Latinx owners face. This research focuses on Latinx business owners, an understudied group, to identify the various sources contributing to inequity in business outcomes for Latinxs using business-level survey data.

A key challenge confronting Latinx business owners is their disproportionately low representation among *opportunity enterprises* - that is, businesses with greater opportunities for entrepreneurial success. Instead, Latinx business owners are more likely to own *survival enterprises*, or those businesses that offer little more than a means of economic survival. Latina and foreign-born Latinxs face greater disparities in owning opportunity enterprises, even after adjusting for human, social, and financial capital resources.

Another barrier to success for Latinx business owners is limited access to financial capital resources, which is a strong predictor of

[1]"Latinx" is used interchangeably with Hispanic and denotes an ethnic identity. As such, Latinxs may be of any race. "Latinx" is used when referring to a person of Hispanic-origin regardless of their gender.

[2]Summaries of business growth in the U.S. are reported by U.S. Census Bureau using data from the 2007 and 2012 Survey of Business Owners. All firms in this survey are non-farm businesses which generated at least $1,000 in business receipts. These data include both employer and non-employer businesses.

owning an opportunity enterprise. As a consequence of limited financial capital and lower representation among opportunity enterprises, Latinx-owned firms tend towards lower business earnings.

Classifying businesses: Opportunity enterprises and survival enterprises

A persistent analytical challenge has been how best to categorize businesses, which themselves exhibit substantial variation in their organizational structure. Based on data representing almost ten million U.S. businesses from the 2007 Survey of Business Owners,[3] I identify two distinct business types from a cluster analysis: *opportunity enterprises* and *survival enterprises.*

Opportunity enterprises hold numerous advantages compared to survival enterprises. Because opportunity enterprises are more profitable and have more paid employees, their economic contributions to local communities – through increased tax revenue and as a source of jobs – are greater than survival enterprises. Despite that, survival enterprises may offer economic advantages to their owners when faced with economically disadvantageous conditions, either by providing their owners with a primary source of income during periods of economic strain or serving as a supplemental source of income in lieu of part-time employment.

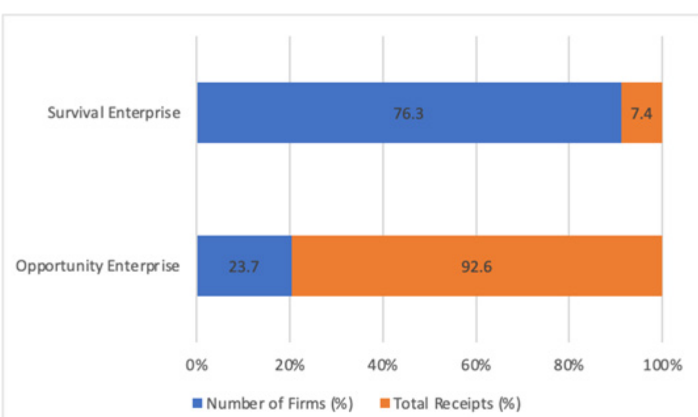

Figure 1. Percentage of total receipts for all firms by business type compared to share of businesses

Almost all (over 95 percent) opportunity enterprises generated at least $10,000 in receipts compared to just over three-quarters of survival enterprises. The average number of individuals employed by an opportunity enterprise was over twenty-six employees compared to less than one for survival enterprises. While only one-quarter of firms were opportunity enterprises, these businesses accounted for over 90 percent of receipts generated by U.S. businesses (Figure 1).

This research shows opportunity enterprises have greater potential to produce higher revenue and employment opportunities than survival enterprises. In the following section, I consider whether entry into one of these two types of businesses is patterned by social characteristics of the owners.

Opportunity constraints for Latinx business owners

Empirical studies on ethnic enterprise find that immigrants are more likely to be self-employed than native-born individuals. This greater propensity in self-employment has been characterized as an "immigrant advantage" in enterprise. As these studies often compare business owners to wage workers, less is understood on how immigrant-owned businesses compare to businesses owned by the native-born. This research, which focuses on the business-owning community, finds whether nativity influences a business owner's odds of owning an opportunity or survival enterprise depends on that owner's race and ethnicity.

I examined differences in the odds of owning an opportunity enterprise among Asian, Black, Latinx, and non-Hispanic white business owners in the U.S. This analysis adjusted for human, social, and financial capital sources, as well as for business characteristics, age of firm, industry, and state. Compared to non-Hispanic white owners, Asian business owners had higher odds of owning an opportunity enterprise, whereas Latinx and Black

[3] The most recent publicly released dataset for the U.S. Census Bureau's Survey of Business Owners is from 2007.

business owners were less likely to own an opportunity enterprise. Among non-Hispanic white and Asian owners, immigrants had higher odds of owning an opportunity enterprise than their native-born counterparts. Latinx immigrants were less likely to own an opportunity enterprise, whereas there was no difference in odds between native-born and immigrant Black business owners.

These findings suggest that researchers should consider multiple social dimensions, such as nativity coupled with race and ethnicity, to fully understand the business experiences of immigrants. As Latinx immigrants – an historically disadvantaged group – were the only immigrant group in this study to be more likely to own survival enterprises, I consider whether access to resources improves business outcomes for Latinx owners.

How diverse capital resources matter for Latinx business owners

Human, social and financial capital resources were important predictors of owning an opportunity enterprise, even after adjusting for demographic and business characteristics. In particular, access to financial capital was a strong predictor for business type. Businesses with start-up capital in the form of government loans and guaranteed government loans had higher odds of being opportunity enterprises. This finding was pronounced for Latinx business owners. This may reflect successful interventions by government programs to provide Latinx business owners with access to start-up capital that facilitated the creation of more generative businesses. On the other hand, it may also signal that those business owners who were successful in securing government sources of start-up funding are savvy in ways not captured by these data. For instance, these owners may have better financial planning skills, greater resourcefulness, or access to diverse networks of fellow entrepreneurs or financial advisors who could provide insight into navigating complex bureaucratic processes.

Latinx-owned businesses in California and Texas

Mexicans comprise the largest subgroup of Latinx business owners in the U.S., owning 45.8 percent of all firms.[4] Because 70 percent of Mexican-owned businesses were located in either California or Texas, I conducted separate analyses by state to better understand the business experience among the Mexican-origin population.[5] California and Texas are both large, economically prosperous states with demographically diverse populations. California and Texas have the largest concentration of immigrants in the U.S. (26.9% and 17.0%), with Mexican immigrants comprising the largest share (41% and 56%, respectively). However, there are meaningful differences between these two contexts. Due to differences in political climates, the policy contexts of these two states differ, both with respect to immigration policy and business regulations. As such, these two states provide an interesting site to explore differences in business outcomes for Latinxs.

By comparing patterns in business outcomes in California and Texas, I find state context structures opportunities for Latinx business owners. For instance, in California – which holds the largest number of Latinx-owned businesses in the U.S. – greater financial capital at start-up shrinks the earnings gap between Latinx and non-Hispanic business owners. However, greater access to financial capital did not mediate differences in earnings for Latinx and non-Hispanic business owners in Texas.

While I found evidence of an immigrant advantage in business earnings across contexts, the boost for immigrants was nullified for foreign-born Latinxs in California. While in both contexts Latinx-owned businesses had lower business earnings than non-Hispanic whites, foreign-born Latinx owners in California earned significantly less than their native-born counterparts. The impact of family support

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[4] U.S. Census Bureau. 2007. Survey of Business (SBO) – Hispanic Owned Firms: 2007.

[5] Results reported in this analysis use a public-use version of the Survey of Business Owners which aggregates Hispanic subgroups (i.e., Mexican, Puerto-Rican, Cuban).

also differed in these two contexts. For Latinx owners, financial support from family ties was associated with 25 percent higher business earnings in California, yet 30 percent lower earnings for Latinx-owned businesses in Texas. This may reflect limited access to financial resources in Texas, turning cash-strapped business owners to filial support as a last resort. While future research should clarify the processes driving these patterns, this work suggests regionally-focused and population-driven approaches can identify and support the unique needs of Latinx business owners across contexts.

Public policy implications

Given the tremendous growth in Latinx-owned businesses over the past decade, there has been growing interest in explaining how these businesses succeed or fail. If these trends continue, there is no ignoring the economic potential of these businesses to U.S. economic growth. However, the needs for Latinx business owners are as varied and diverse as Latinxs themselves; thus, it is clear more work is needed to promote equitable access to economic opportunity for Latinx business owners.

Insights from state-level analyses reveal greater access to financial capital is working to level the playing field for Latinx business owners in California, yet foreign-born Latinx owners continue to lag native-born Latinxs' business earnings in this state. Regardless of context, financial capital was positively associated with owning opportunity enterprises *and* with higher business earnings. One potential intervention based on these findings includes providing greater access to low-interest business loans to support business start-up and expansion. Another promising prospect from this research is the positive role of government-supported loans in boosting Latinxs odds of owning an opportunity enterprise. Creating programs and access to government loans for businesses that create new jobs would augment the economic contributions of Latinx-owned businesses.

Investing in Latinx-owned opportunity enterprises will not only ensure that these businesses are more profitable over time, but they will also stimulate job growth by increasing demand for employees. While survival enterprises may serve as an important lifeline for many struggling Latinx business owners, there is an opportunity for policy interventions to foster more Latinx-owned opportunity enterprises, thereby incentivizing greater economic growth and success within Latinx communities.