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Latino-Owned Business's: The Future of the US Economy

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Author's Note

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### Abstract

In recent years the United States has witnessed an unprecedented rate of growth in the number of Latino-Owned Business's, LOB's, which has dramatically boosted the US Economy. However, while the number of LOB's has increased, the sizes of these individual businesses hasn't, growing at a rate that's half the national average and leaving trillions of dollars and countless jobs out of reach. In search for a solution, this research bases its information in a variety of sources including government agencies and partnerships between higher education and the LOB community, among them Stanford University and the Latino Business Action Network. Through this research this paper intends to show the advantages of a relationship between higher education and LOB's as well as propose how such a relationship would work. As the Latino population in the US continues to grow and establish businesses, it is clear how crucial it is to the economy that LOB's get the help they need to grow.

*Keywords:* economy, Latino-owned businesses, businesses

Businesses are the backbone to any country and its economy, and as so one of the most crucial components for a country to develop. Despite this, as the US has continued to grow into an economic superpower in today's world it has turned a blind eye to Latino-owned businesses. Although the number of these business is growing at record-breaking rates, the scaling of these businesses is growing just half of the national average, resulting in the loss of millions of potential jobs and trillions of dollars for the US Economy. While progress is being made in helping develop Latino-owned businesses through partnerships between institutions of higher learning and nonprofits, as well as private companies, this is only a start.

In order to establish a standard that is maintained throughout this research, this paper will be classifying Hispanic Business Ownership similarly to how the US Census Bureau defines it; by "having people of Mexican, Puerto Rican, Cuban, or other Hispanic origin (such as Dominican or Salvadoran) owning more than 50.0 percent of the stock or equity in a nonfarm business operating in the United States." Furthermore, all information and statistics cited within this paper originate from articles and reports written within the last three years from a variety of sources such as the US Census Bureau, the Stanford Graduate School of Business, and JPMorgan Chase & Co., all of which are basing data from research and surveys conducted within the past ten years. For example, most statistics that will be used from the US Census Bureau are based on the 2012 Survey of Business Owners, a survey that gathers information from a broad range of business owners across the nation as part of the US Census Bureau's five-year economic census.

In recent years the Hispanic community in the United States has seen unprecedented growth rate across the board between education, population, and businesses. As reported by the US Census Bureau, the number of Hispanic owned businesses saw an increase by over 1 million firms, growing from 2.3 million to 3.3 million (46.3% growth) from 2007 to 2012, drastically

surpassing the total increase in all US firms, which only saw a 2% increase in the same time frame. And this growth rate followed through to these businesses financials, overall seeing an increase of receipts of 35.1%, going from \$350.7 billion in 2007 to \$473.6 billion in 2012, yet again surpassing their counterparts, where all firms only saw an 11.7% increase within the same period. These are incredible results that are predicted to continue to grow as the Hispanic population continually grows itself, being expected to comprise 29% of the population in the US by 2050, a monumental increase from today's mere 17% according to Stanford. Despite having problems of their own, particularly with establishing themselves and continuing to scale, Hispanic owned businesses are continuously making internal improvements for their companies, yet again surpassing the progress of non-Hispanic owned businesses. As reported by the US Census Bureau, "30.7 percent have made it easier for customers to use a good or service... 23.9 percent have applied a new way of purchasing, accounting, computing, maintenance, inventory control or other support activity... 20.5 percent have made a significant improvement in a technique or process by increasing automation, decreasing energy consumption or using better software," to name a few of the accomplishments.

Focusing in onto smaller Latino-owned businesses, they too have been seeing a huge increase in quantity, surpassing that of Hispanic owned businesses as whole, which covered both large and small businesses. Over the same span between 2007 and 2012, Latino-owned businesses comprised an entire 86% of growth in all small businesses in the US. However, these businesses aren't scaling at the rate they need to, meaning that despite the number of these businesses are growing at unprecedented rates, the size of the individual businesses aren't, Scaling at roughly half the national average, the Stanford Graduate School of Business estimates

that had Latino-owned businesses been growing as fast as the national average they would have added up to \$1.4 trillion to the US Economy in 2012. As explained by JPMorgan Chase & Co.:

“It’s 40 percent more in one year than Microsoft has made since it was founded in 1975. It’s more than the GDP of every country in the world below the top ten. Bottom line: It would add almost eight percent to the \$18 trillion U.S. economy.”

That amount of money could have made incredible impacts to the economy, having immense potential to lower tax rates, improve public education, lower the cost of higher education, or even help establish free health care.

Unfortunately, not having that additional revenue of \$1.4 trillion isn’t the only consequence of Latino-owned businesses not scaling effectively. Looking further into this issue through Stanford University, Jerry Porras, the Lane Professor of Organizational Change, along with Douglas Rivers, a senior fellow at the Hoover Institution and Professor of Political Science at Stanford, report that “less than 2% of Latino-owned businesses have revenues of over \$1 million per year,” comparing to the 4.9% shared amongst all businesses. Furthermore, Porras and Rivers reported that on average Latino-owned firm on average employed a mere 8.6 employees, while their non-Latino-owned counterpart firms employed an average of 12 individuals. A peer reviewed journal titled “Survey of Latino Business Owners in North Central & Northeast Washington” spent a portion of its resources looking into this same issue and discovered an interesting correlation between unemployment in the Latino communities and Latino entrepreneurs. Published in June of 2014, authors Martin Meraz-Garcia, Jereny Mendoza, D. Patrick Jones, and Brian Kennedy stated that “higher unemployment rates among Hispanics often push Latinos to become self-employed and their strong community connections allowed them (at least in theory) to thrive even when the economic outlook was bleak.” This reveals that

Latino's while facing a variety of obstacles between lack of wealth and financing, lack of education, minimal employment opportunities, and more, the Latino community tend to turn towards self-employment by starting their own businesses, which explains the fact that Latino-owned businesses are growing in quantity, not quality. And this only helps exemplify that there is a serious need for further education and financial assistance in the Latino communities, which is exactly where institutions of higher learning, nonprofits, and businesses come in. "There is wealth lacking in the Latino community. When you don't have wealth, you tend to have poor schools, crime, and poor housing," Porras says. "We really believe the economics is where this needs to be attacked. How can we help Latino-owned businesses grow?"

Over recent years, in hopes of addressing and resolving this issue, a variety of institutions for higher learning, nonprofit organizations, and companies have begun to conduct research and develop programs to help enable Latino business owners to begin scaling their business as successfully as possible. Stanford University did so by establishing The Stanford Latino Entrepreneurship Initiative (SLEI), a innovative and progressive research initiative based within Stanford's Graduate School of Business. As stated by Stanford, "SLEI explores and expands our knowledge of the Latino entrepreneurship segment in our economy through research, knowledge dissemination, and facilitated collaboration." More so, SLEI specifically works towards growing its database for known US Latino-owned companies, including a survey panel for thousands of independent companies, disseminating and making available all gathered research, and generating more informed decision-making within policy, business partnerships, and knowledge and skill development through its research. In other words, SLEI is working to learn as much as possible about Latino-owned businesses, whether it's general statistics or ways to create further profit and growth, with the goal of maintaining well-informed discussions across the US as it

pertains to Latino-owned businesses. As explained by Stanford's Graduate School of Business, SLEI's research strategy is to:

“Host a database of over 1 million (of the more than 4 million) Latino-owned companies in the United States. Survey owners annually about their business practices and growth, creating the largest and most comprehensive dataset of its kind. Publish reports useful to a span of groups, ranging from policy makers to educators to business owners. Connect with faculty and practitioners who can use our data to conduct quality research and promote business owner education.”

So far this initiative has been widely successful, constantly generating new and useful information to continue help supporting and developing these businesses. As Stanford develops this, they created a partnership with the Latino Business Action Network (LBAN), a nonprofit entrepreneurship organization that works independently of Stanford. With assistance from SLEI through research, LBAN works to improve the quality of life within the Latino community through entrepreneurship education and the creation of a support network. As explained by Stanford, through this partnership LBAN “accomplishes this by empowering Latino communities to substantially scale firms that create jobs, develop leaders, and spawn a new generation of Latino companies.” And thus far the partnership has been hugely successful, having now established a database of over 1.3 million US Latino-owned companies, all of which are being given the opportunity to receive help from LBAN based on the research conducted by SLEI. One of the pinnacles of achievement for this partnership was the creation of the SLEI Education Scaling program, a nationally available six-week online education course for business leaders wishing to develop highly scalable companies by providing them with the knowledge, skills, mentors, and access to capital necessary for success. To further help define and prove the

value of this program, this partnership has now identified eight Latino founders generating upwards of \$1 million in annual revenue or who have received a minimum of \$1 million in investing, all of which partook in a Latino entrepreneurship program at Stanford. Following suit with SLEI and LBAN, Sean and Kenny Salas founded Camino Financial, an online lending company that helps establish a working relationship between Latino business owners, who are either struggling to get loans or are first time borrowers, with banks and lenders. Through this company, the Salas brothers are hoping to help Latino entrepreneurs not only get loans but also offer advice and ongoing credit monitoring in order to help maintain and scale their businesses. As explained by the Salas brothers through an interview with CNN, Camino Financial doesn't finance anything itself, but rather pre-qualifies borrowers and connects them with one of their lending partners, and through doing so the lending partners then pay Camino Financial 2.5% of the resulting loans principal. This means that by working with Camino Financial, Latino-owned businesses aren't paying any extra money for the help to get a loan. Part of how Camino Financial chooses who it works with is based on an in-depth portfolio of information on the borrower rather than just credit history, in part because most of their cliental doesn't have and credit history to speak of. By taking into account credit scores, tax information, bank statements, and even social media date, Camino Financial helped finance 33 small business a total of \$1.3 million worth of loans, which has now generated \$750,000 worth of revenue for the company.

As these organizations and partnerships have begun to develop, government agencies and major corporations have also taken a special interest, understanding the extreme value of startups as they provide and establish future jobs, depositors, abled tax payers, and a boost to the national company. For instance, one of the larger and more significant nonprofits, Accion, receives funding from grants given by the US government, such as from the Department of Treasury, as

well as support by JPMorgan & Chase Co., neither of which are charities and as so turn to other organizations to do so. These small businesses create almost two-thirds of all new jobs across the United States and almost half of the private sector output of our economy, providing a much-needed support for our country and our communities. While it comes down to circumstances and opportunities, partnerships between institutions of higher learning, nonprofits, and companies is a mutually beneficial arrangement that leads to unlimited opportunities in not only establish universities as leaders in the research of this crucial field but also help progress and develop Latino-owned businesses for the sake of their future as well as this nations, not to mention the potential for generating additional revenue that can be applied to advancing these programs. This has already been shown between SLEI (as part of Stanford) and LBAN, for which SLEI has been given incredible opportunities to research this issue, enabling LBAN to use said research to make a serious difference in the Latino community, as well as work from Camino Financial that was created a hugely successful business by working for these Latino-owned businesses.

This is undoubtedly an immensely complex issue, require further research and experimentation by universities, nonprofits, and companies alike. But even more undeniable than that is the fact that Latino-owned businesses have huge potential which can only be achieved through work of organizations, companies, and partnerships as previously discussed. With the potential to create millions of jobs and generate trillions annually for the US Economy, Latino-owned businesses are the future of the US Economy.

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