

# 2018

RESEARCH  
REPORT

## THE U.S. LATINO ENTREPRENEURSHIP GAP

A COMPARATIVE MEASURE OF LATINO ENTREPRENEURSHIP ACTIVITY



**STANFORD**  
**BUSINESS** GRADUATE SCHOOL OF

Latino Entrepreneurship  
Initiative

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## CONTRIBUTORS

- Arnobio Morelix, contributing data scientist, Stanford Latino Entrepreneurship Initiative; and Director of Research at Startup Genome
- Inara Sunan Tareque, independent research analyst
- Marlene Orozco, Lead Research Analyst, Stanford Latino Entrepreneurship Initiative
- Iliana Perez, Research Analyst, Stanford Latino Entrepreneurship Initiative
- Paul Oyer, The Mary and Rankine Entrepreneurial Professor and Professor of Economics, Stanford Graduate School of Business; Senior Fellow, Stanford Institute for Economic Policy Research; and SLEI Faculty Advisor
- Jerry I. Porras, Lane Professor of Organizational Behavior and Change, Emeritus, Stanford Graduate School of Business; SLEI Faculty Advisor; and Latino Business Action Network cofounder



# EXECUTIVE SUMMARY

**The Latino population is large and growing, and Latinos are making major contributions to the U.S. economy. Latinos own 350,000 employer businesses in the U.S., creating nearly 3 million American jobs, and driving a GDP of more than \$2 trillion. The Latino population in the U.S. has more than doubled since the 1990s, growing from 8 percent to 18 percent by 2015. In turn, the number of businesses owned by Latinos is rising. In 1996, just 6 percent of all businesses were owned by Latinos; today that number has more than doubled to nearly 13 percent.<sup>1</sup>**

Yet, despite this progress, there remains a significant gap in entrepreneurial participation between Latinos and non-Latinos. If this gap were closed, Latino-owned businesses could make even larger contributions to the American economy, with an extra 650,000 employer businesses and an additional 5.3 million jobs.

In our report, we quantify this entrepreneurship gap through a “Latino Entrepreneurship Score,” which we created by analyzing data from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs (ASE). The ASE is an annual survey of over 200,000 entrepreneurs of employer businesses in the U.S. The Latino Entrepreneurship Score is measured across national, state, and metropolitan areas, and explores possible reasons preventing Latinos from achieving their full entrepreneurial potential.

## KEY FINDINGS IN THIS REPORT

### **Barriers like cost and lack of access to capital could mean 650,000 fewer Latino-owned businesses**

Non-Latinos own employer-businesses at nearly three times the rates of Latinos. If this entrepreneurship gap were closed, the U.S. could have an extra 650,000 businesses and an additional 5.3 million jobs.

While we cannot yet fully explain the reasons for this difference, there are a range of opportunity gaps arguably preventing this group from reaching its full entrepreneurial potential, including negative impacts driven by lack of access to growth capital and the high cost of acquiring that capital.

### **The ability to scale up—not start up—is at the heart of the opportunity gap**

Latinos make up 17 percent of the U.S. population, and 24 percent of all new entrepreneurs. This means that Latinos are actually overrepresented among startups. However, these new business starts—measured at the moment of creation, regardless of revenue or employment size—are not scaling at high rates. Latinos make up only 6 percent of all businesses with employees and less than 5 percent of employer businesses with more than \$1 million in annual revenue.

This gap in scaleups exists for two key reasons:

- On the journey to scaling, the main hurdle to Latino-owned businesses is crossing the “employment threshold,” going from a solopreneur (an entrepreneur without employees) to becoming an employer business (a business with paid employees).
- Latino-owned businesses start smaller and stay smaller. Among employer businesses, the average annual revenues across the life cycle of Latino-owned companies are approximately one quarter lower than those of non-Latino businesses.

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<sup>1</sup> 2017 *State of Latino Entrepreneurship Report*, Stanford University and Latino Business Action Network (LBAN)

Industry choices are not sufficient to explain the differences in scale across businesses. Latinos start businesses in the same industries as non-Latinos, from information to manufacturing to construction, and, in general, are smaller than non-Latino owned businesses across most industries measured.

### **Some cities and states have much smaller entrepreneurship gaps than others**

While the gap in Latino entrepreneurship exists across the country, some metropolitan areas and states perform a lot better in our Latino Entrepreneurship Score than others. In this report, we calculated and published the score for all locations where sample sizes and standard errors allowed for robust measures.

Based on 2015 data, the top 5 metropolitan areas with the highest Latino Entrepreneurship Scores are:

1. Miami-Fort Lauderdale-West Palm Beach, FL
2. Tampa-St. Petersburg-Clearwater, FL
3. Washington-Arlington-Alexandria, DC-VA-MD-WV
4. Orlando-Kissimmee-Sanford, FL
5. Portland-Vancouver-Hillsboro, OR-WA

Similarly, the top states with the highest Latino Entrepreneurship Scores are:

1. Florida
2. Virginia
3. Tennessee
4. Maryland
5. Alabama/Indiana (tie)



# THE LATINO ENTREPRENEURSHIP GAP

Latinos make major contributions to the United States' economy, and their contributions are increasing. The share of the Latino population has more than doubled since the 1990s, from 8 to 18 percent by 2015. Furthermore, the gross domestic product (GDP) of Latinos in the U.S. is \$2.13 trillion, and the number of businesses owned by Latinos continues to grow. In 1996, 6 percent of all businesses, with or without employees, were owned by Latinos. Today that percentage has more than doubled to almost 13 percent.<sup>1</sup>

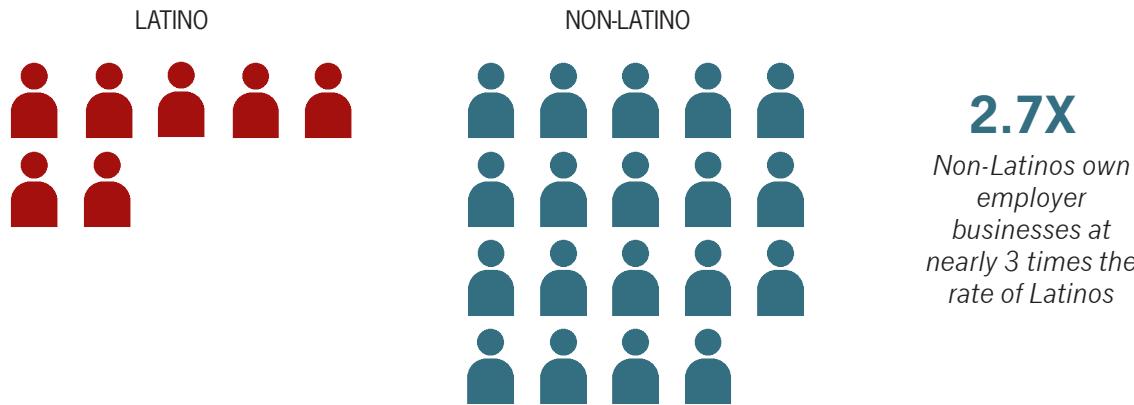
If we switch our focus to only those businesses with employees—employer firms—we find that Latinos are making significant contributions: Latinos own 350,000 employer firms in the U.S., and Latino entrepreneurs create nearly 3 million American jobs through those employer firms. While employer firms make up a relatively small portion of all businesses—approximately 20 percent—they are particularly meaningful to job creation.<sup>2</sup>

Yet, despite this progress, there is a major gap between the number of Latinos and non-Latinos who own businesses with employees. There are about seven Latino-owned employer businesses for every 1,000 Latinos in the U.S., while that number is 19 out of every 1,000 non-Latinos.

That is, non-Latinos own employer businesses at nearly three times the rate of Latinos, which presents a significant opportunity gap. If this gap were closed, the U.S. might have an extra 650,000 employer businesses and an additional 5.3 million jobs.

This divide is not exclusive to Latinos and exists for other minority populations.<sup>3</sup>

**FIGURE 1: THE U.S LATINO ENTREPRENEURSHIP GAP, LATINO/NON-LATINO BUSINESS OWNERS BUSINESS OWNERSHIP RATE PER 1,000 TOTAL POPULATION**



*Note: Latino-owned businesses include businesses with Latinos as majority owners, as well as businesses equally owned by Latinos and non-Latinos*

*Source: Author's calculations from the 2015 U.S Census Bureau Annual Survey of Entrepreneurs and American Community Survey data*

<sup>1</sup> 2017 State of Latino Entrepreneurship, Stanford University and Latino Business Action Network

<sup>2</sup> Author's calculations from U.S. Census Bureau 2012 Survey of Business Owners dataset

<sup>3</sup> 2017 State of Entrepreneurship Report, Kauffman Foundation, and the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs dataset

## DEFINING THE LATINO ENTREPRENEURSHIP GAP

We define the Latino entrepreneurship gap as the difference in the rate of business ownership between the Latino and the non-Latino populations. The Latino business ownership rate is simply a ratio of the total number of firms owned by Latinos to the Latino population (in a given location). Similarly, the non-Latino rate is a ratio of firms owned by non-Latinos to the non-Latino population.

The gap seen at the national level holds true for all 50 states and Washington, D.C., as well as for the 50 largest metropolitan areas in the country. The only state for which the difference was not statistically significant was West Virginia, and the only metro for which the difference was not statistically significant was Pittsburgh PA; however, the standard errors were high for these places. For more details on these calculations, please see the Methodology section, page 21.

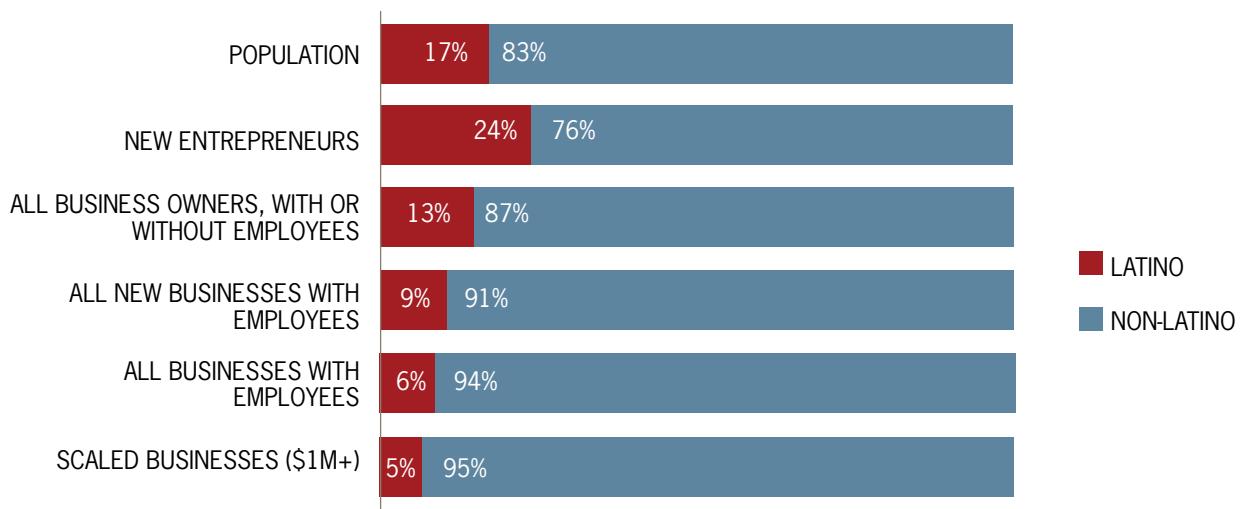
When we look deeper into the data for Latino entrepreneurship, three key findings emerge:

1. The gap is not in starting up—it's in scaling up.
2. On the journey to scaling, the main hurdle for Latino-owned businesses is crossing the employment threshold, going from a “solopreneur” (an entrepreneur without employees) to the owner of an employer business.
3. Latino businesses start smaller and stay smaller.

## STARTUP AND SCALEUP GAP

The most straightforward way of understanding how Latino entrepreneurs compare to their non-Latino peers is to look at the distribution of businesses at different stages for both groups. Figure 2 shows that Latinos make up 17 percent of the U.S. population and 24 percent of all new entrepreneurs. As these new entrepreneurs are captured in the first month they are working full-time on their businesses, this mostly captures businesses without employees. So, in terms of starting up, Latinos are actually overrepresented. However, when it comes to scaling up, only 6 percent of all businesses with employees and less than 5 percent of scaled businesses (more than \$1 million in revenue) are owned by Latinos.

FIGURE 2: LATINO CONTRIBUTIONS ACROSS DIFFERENT BUSINESS TYPES



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs, American Community Survey, and Current Population Survey data, as well as data from Startup Activity Index from the Kauffman Foundation

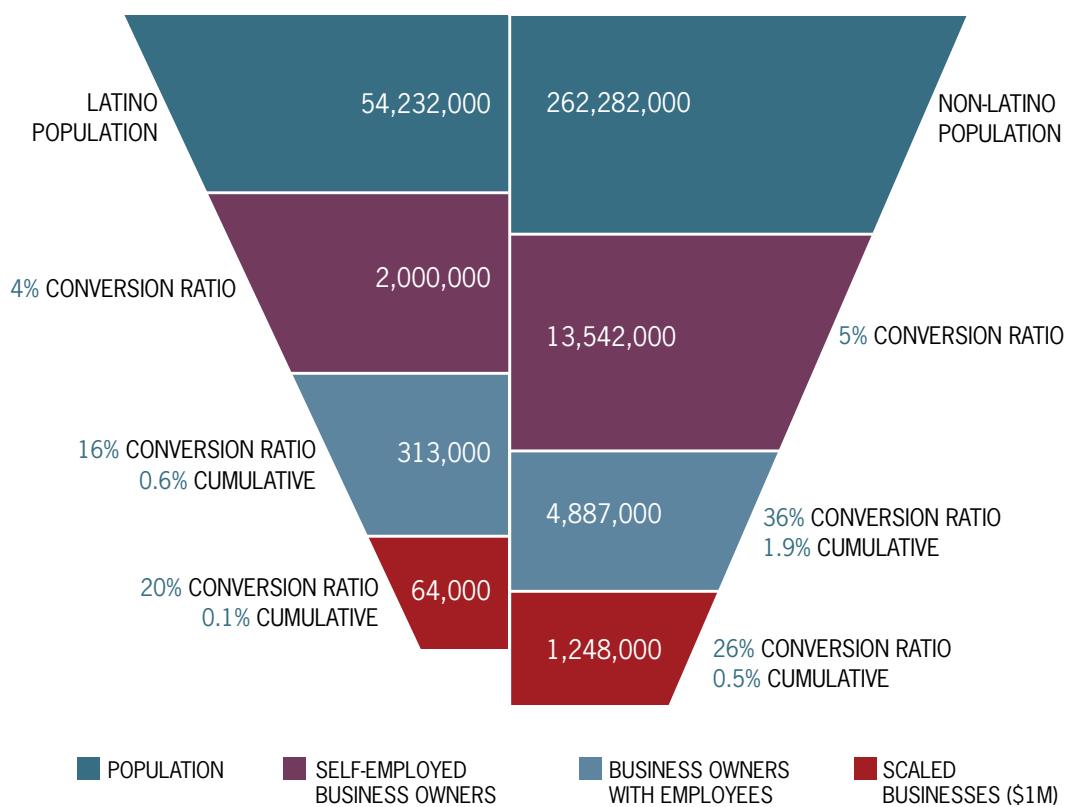
## THE LATINO ENTREPRENEURSHIP FUNNEL AND CROSSING THE EMPLOYMENT THRESHOLD

Another way of looking at the data is to define and measure an entrepreneurship funnel—the steps entrepreneurs go through in starting and scaling their businesses. Marketers, especially startup types and growth hackers, use customer conversion funnels as a tool to understand how a potential customer can turn into a paying customer. Inspired by this, we propose an entrepreneurship funnel, with four key categories:

1. General population
2. Self-employment
3. Job creation
4. Scaled business

For the transition between each of these phases, we calculate a “conversion ratio,” the rate at which the group in each phase “converts” into the next phase. This estimate is based on cross-sectional data—equivalent longitudinal data are not available yet. The data are taken at the most recent shared year across sources, 2015.

FIGURE 3: THE LATINO ENTREPRENEURSHIP FUNNEL



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs, American Community Survey, and Current Population Survey data

Figure 3 shows that the rate at which Latinos are self-employed business owners is lower than that of non-Latinos by only about 29 percent (1.5 percentage points). Note that while Latinos are overrepresented in terms of flow into self-employment (what we show as “New Entrepreneurs” in Figure 2), they are underrepresented among self-employed entrepreneurs overall. Latinos are even more underrepresented among entrepreneurs who own businesses with employees.

For Latinos, out of every 100 self-employed business owners there are only about 16 businesses with employees, while there are over twice as many such businesses for every 100 non-Latino business owners. This difference represents about 20 percentage points, and is the biggest such gap shown in this entrepreneurship funnel.

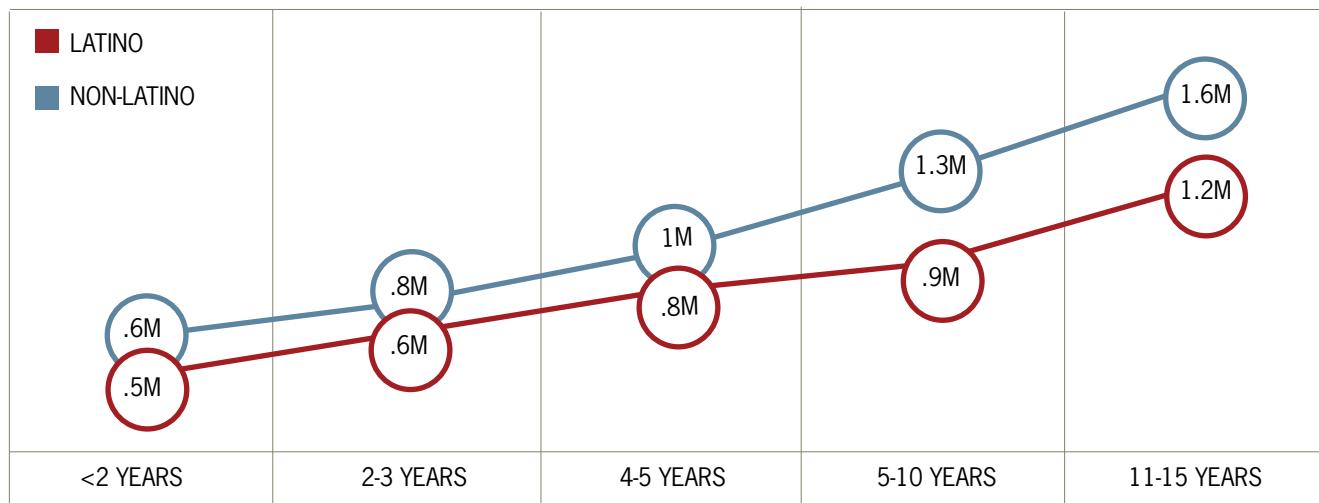
The gap narrows when we look at how many employer firms become “scaled businesses,” defined in the 2017 *State of Latino Entrepreneurship* report as employer businesses with over \$1 million in annual revenue. Out of every 100 Latino-owned businesses with employees, about 20 have scaled up to earn over \$1 million in revenue. Conversely, about 26 out of every hundred non-Latino businesses earn over \$1 million in revenue. This is a difference of 20 percent (just over 5 percentage points).

These figures suggest that the main hurdle for Latino entrepreneurs comes when they try to cross the employment threshold. The gap that exists when becoming a self-employed entrepreneur is not as large, nor is the difference when becoming a scaled business once the company has become an employer firm. For more detail about the data sources used here, see the Methodology section, page 21.

### STARTING SMALLER AND STAYING SMALLER

Another way of analyzing these data is to look at cross-sectional business sizes for Latino vs non-Latino owned employer firms.<sup>1</sup>

FIGURE 4: AVERAGE EMPLOYER FIRM ANNUAL REVENUE SIZE BY BUSINESS AGE, LATINO COMPARED TO NON-LATINO



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data

<sup>1</sup> Calculations here are inspired by previous work by Morelix, Hwang and Tareque for the Kauffman Foundation on the State of Entrepreneurship report 2017; similar measure for all minority-owned businesses compared to non-minorities are available in that report

This comparison shows that the gap in business size for Latino- and non-Latino owned businesses already exists at the starting point, and changes some, but not dramatically throughout the course of business development. Compared to non-Latino-owned businesses, on average, Latino-owned businesses have a lower initial revenue by about \$0.16M (lower by 25 percent). Even as the businesses mature after 11 to 15 years, Latino-owned businesses still earn lower revenues by about \$0.41M (lower by 25 percent).

### WHY IS THERE A LATINO ENTREPRENEURSHIP GAP?

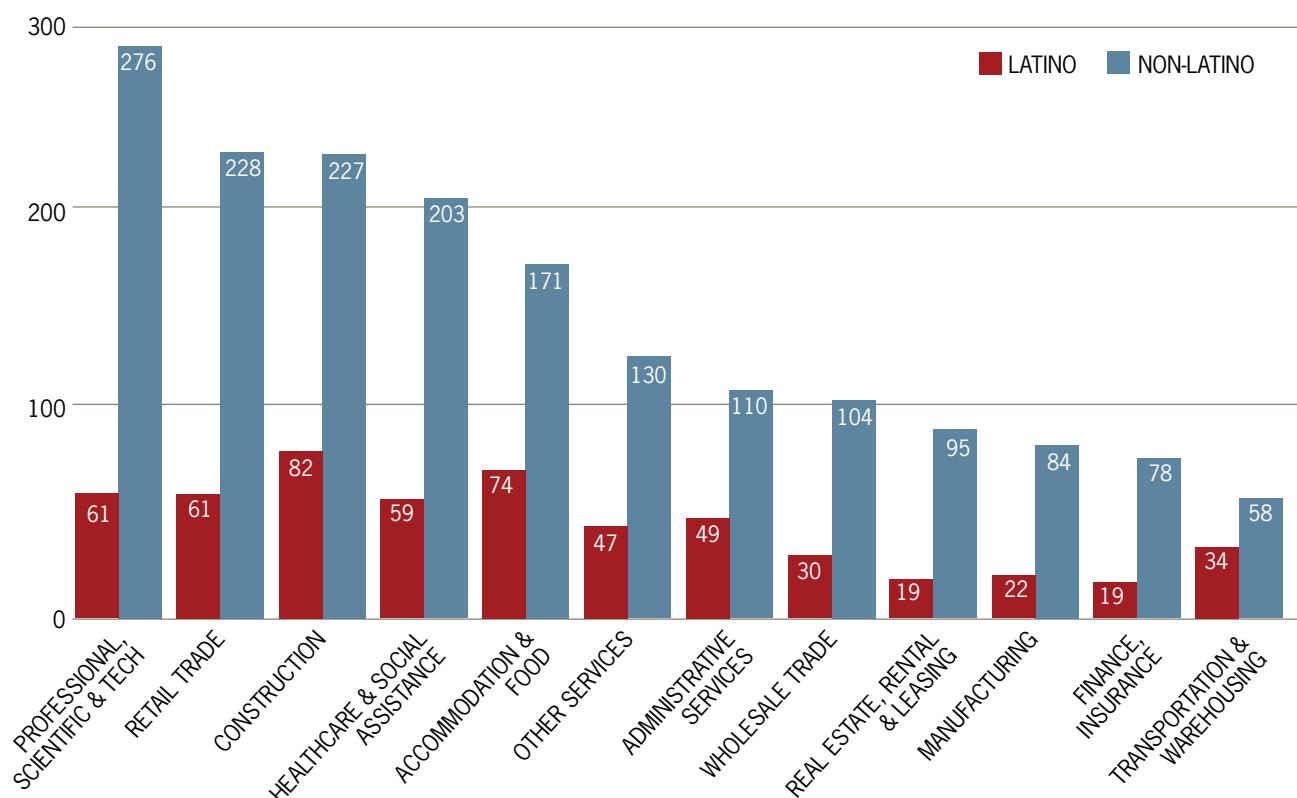
In this section, we look at three potential reasons for the gap between Latino- and non-Latino owned businesses: composition of industries, motivation of entrepreneurs, and financing.

#### Industry Composition

Latinos have lower rates of business ownership across all industries and are less likely than non-Latinos to own businesses with employees across all 20 industry categories that are available in the data. However, while Latinos and non-Latinos own businesses in different types of industries, industry variation is not enough to meaningfully explain the gap in business ownership or scale of businesses across these two groups.

**FIGURE 5: RATE OF EMPLOYER BUSINESS OWNERSHIP FOR LATINOS AND NON-LATINOS BY INDUSTRY, PER 100,000 OF THE POPULATION**

FOR 12 MOST COMMON INDUSTRIES FOR EMPLOYER BUSINESSES IN THE U.S.



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data

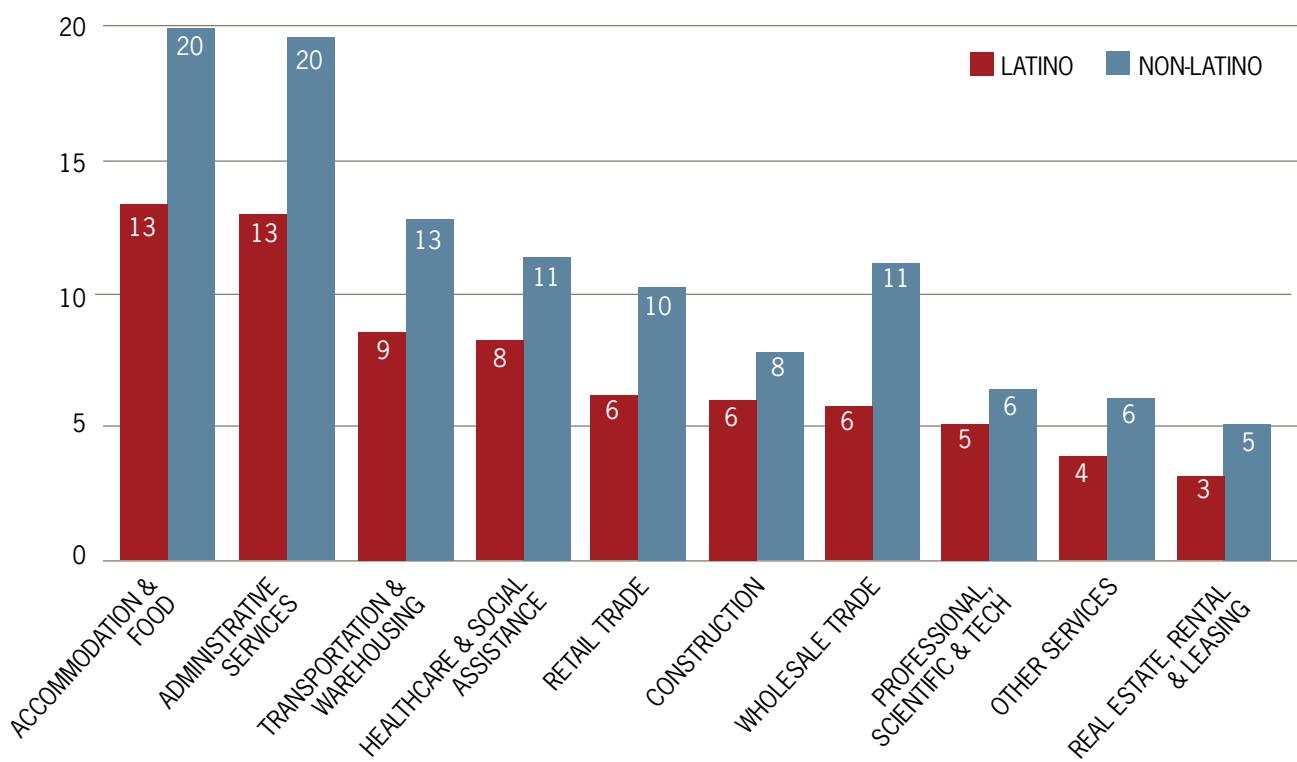
This does not mean both groups have the same industry choices. While the top five industries for both groups are the same, they have somewhat different distributions. The top two industries for non-Latinos are 1) professional, scientific, and technical services and 2) retail trade. While these two industries are very common for Latinos also (#3 and #4 most common), they are overrepresented among non-Latinos.

Similarly, the top two industries for Latino-owned businesses are 1) construction, and 2) accommodation and food services, (#3 and #5 most common industries among non-Latinos), and Latinos have an overrepresentation of businesses in these fields.

Industry variation does not help much in explaining the scaleup gap either. Across most industries, non-Latino owned businesses are larger on average. In 10 of the 20 2-digit NAICS (North American Industry Classification System) code industries, non-Latino owned businesses are larger, in a statistically significant manner, than Latino-owned businesses. There are no industries where Latino firms are significantly larger on average. Non-Latino firms are larger in most other industries, as well, though limits in sample size do not allow us to draw statistically significant distinctions.

## FIGURE 6: AVERAGE SIZE OF FIRMS BY INDUSTRY, LATINO VS. NON-LATINO

THE AVERAGE SIZE OF FIRMS AS A RATIO OF THE NUMBER OF EMPLOYEES IN A GIVEN INDUSTRY OVER THE TOTAL NUMBER OF FIRMS IN THAT INDUSTRY



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data

## Entrepreneurs' Motivation

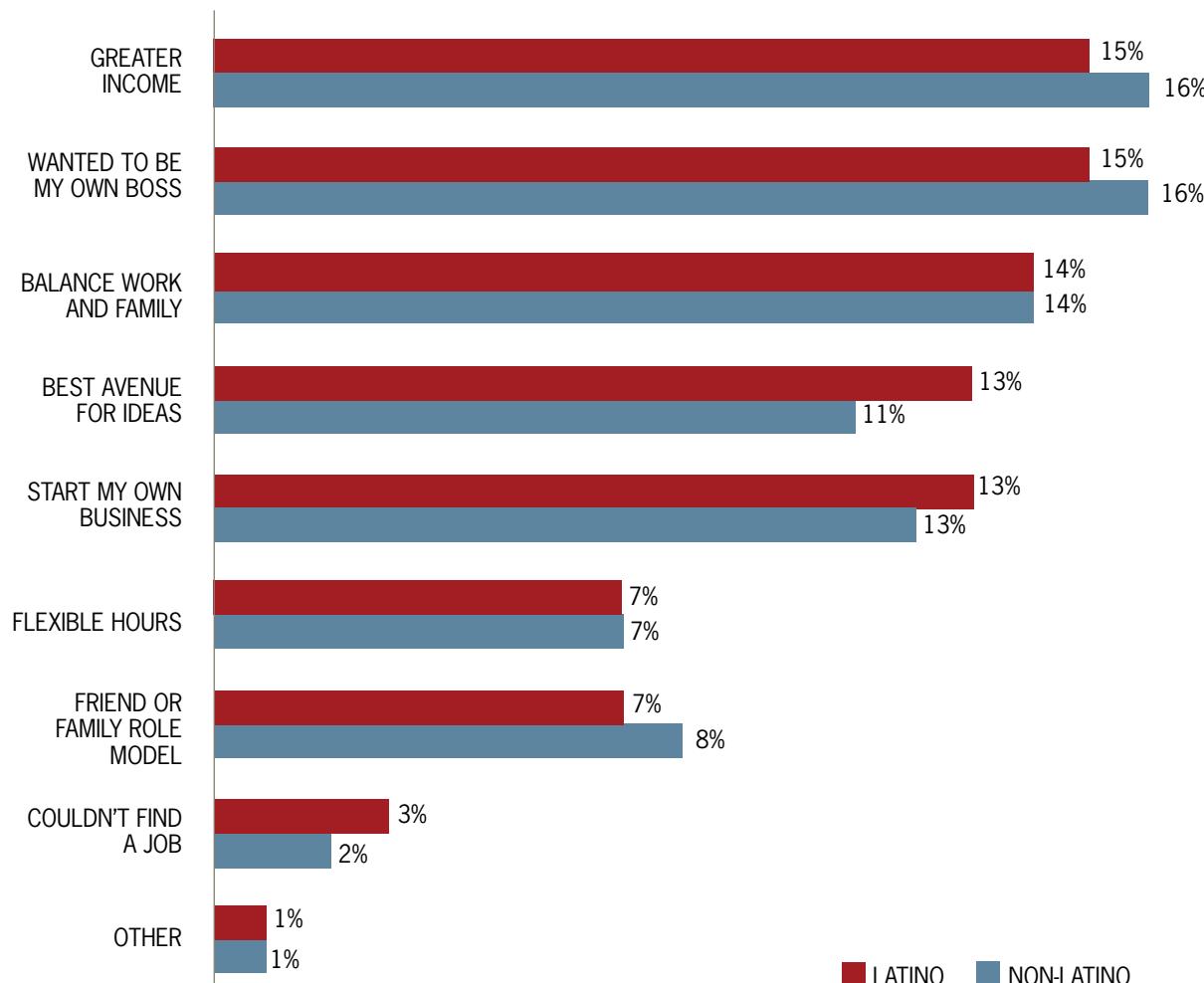
Reasons for owning a business do not seem to be a major driver of the Latino entrepreneurship gap and do not seem to vary much for Latinos compared to non-Latinos. Essentially, both groups state the same top three reasons for owning a business:

1. “[Looking for] greater income”
2. “Wanted to be my own boss”
3. “Balance work and family”

These results are similar to what the Stanford Latino Entrepreneurship Initiative (SLEI) has found through previous research. Though the data previously collected does not allow for a one-to-one comparison, the Latino entrepreneurs surveyed by SLEI mentioned the following three factors as most important in motivating them to start their own businesses:

1. “I always wanted my own business”
2. “I wanted to earn a greater income”
3. “The opportunity presented itself at the right time”

FIGURE 7: COMPOSITION OF MOST IMPORTANT REASONS FOR OWNING A BUSINESS, LATINO VS. NON-LATINO



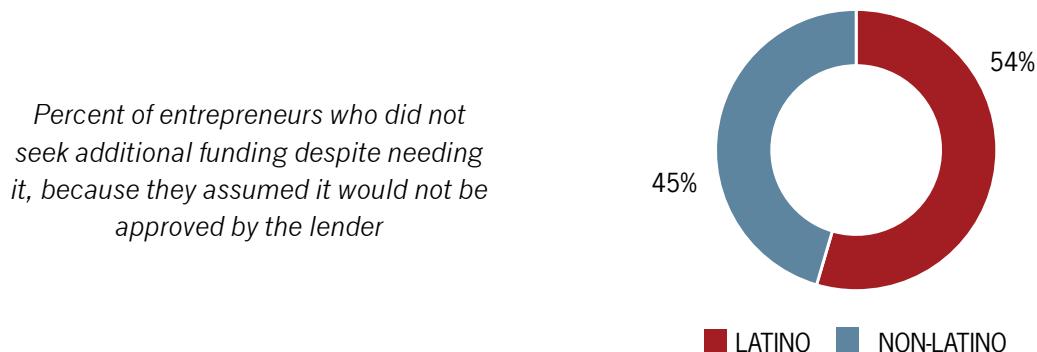
Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data

## Financing

Of the potential reasons for the entrepreneurship gap identified in this report, business financing is the most prominent. Latinos are more likely to report having their businesses negatively impacted by cost and access to capital and are more likely to not apply for financing despite needing it.

This relates to the conclusions found in the *2017 State of Latino Entrepreneurship* report, where lack of financing was highlighted as a key factor associated with lower levels of Latino entrepreneurship and scaling. Despite needing it, about 5 in 10 Latino entrepreneurs who wanted additional financing did not apply for a business loan because they thought it would not be approved by a lender.<sup>1</sup>

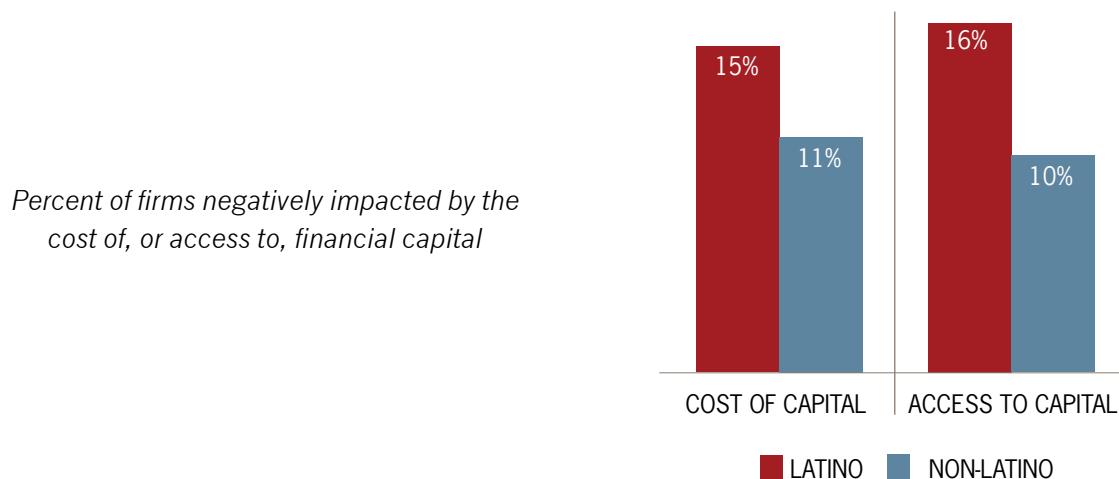
**FIGURE 8: RELUCTANCE TO SEEK EXTRA FUNDING, LATINO VS. NON-LATINO  
PERCENT OF BUSINESS OWNERS**



### Negative Impact of Financing

Fifteen percent of Latino-owned businesses report that profits are negatively impacted by cost of capital, compared to only about 11 percent of non-Latino- and 10 percent of non-minority-owned businesses. Similarly, about 16 percent of Latino-owned businesses report profits as negatively impacted by lack of access to capital, compared to only about 10 percent of non-Latino-owned businesses.

**FIGURE 9: NEGATIVE IMPACT FROM FINANCIAL CAPITAL, LATINO VS. NON-LATINO  
PERCENT OF FIRMS**



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data

<sup>1</sup> These calculations are similar to what Robb and Morelix reported on the research briefing "Startup Financing Trends by Race: How Access to Capital Impacts Profitability" (2016)



# STATE-LEVEL INSIGHTS

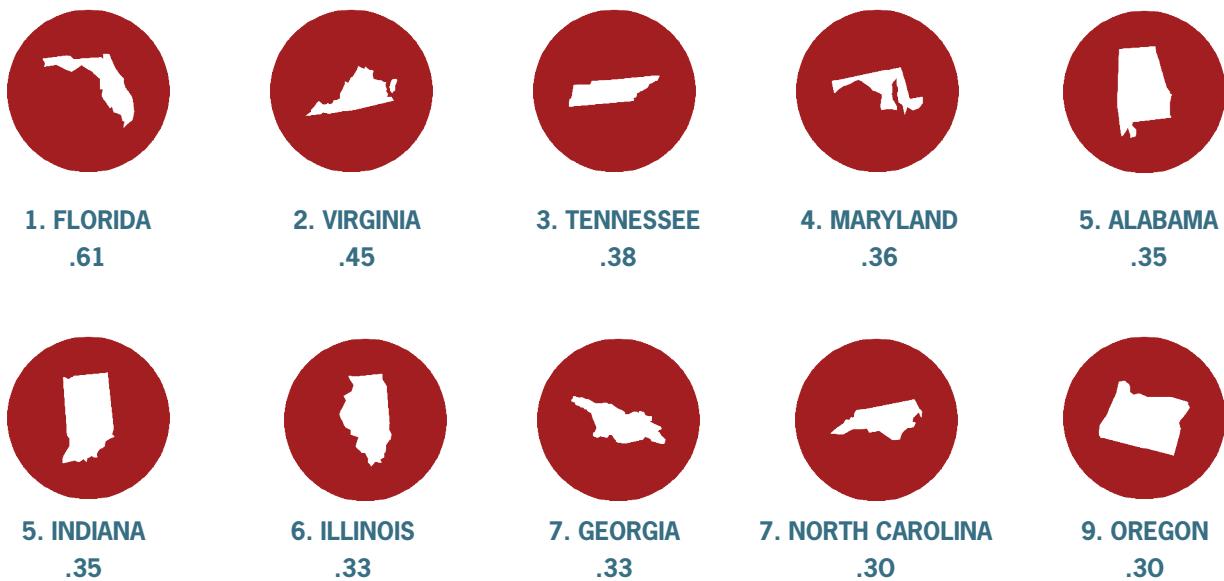
While the Latino entrepreneurship gap—the difference in employer business ownership rates between Latinos and non-Latinos—exists in virtually every state in the U.S., it is not evenly distributed.<sup>1</sup> Some states are true pockets of achievement, with gaps much smaller than in the rest of the country. Conversely, other states have even more alarming gaps than the ones we see at the national level.

To measure the gap, we created a “Latino Entrepreneurship Score,” defined as the ratio of business ownership rate for Latinos compared to the rate for non-Latinos in that location. A score of one means that the rate for both groups is the same, while a score of less than one means that the entrepreneurship rate of Latinos is lower. For the purposes of this analysis, we focused on states where the standard error of estimates was relatively small (we chose 15 percent relative standard error for the number of Latino-owned employer businesses in the location as the cutoff).

The states with the smallest gaps in Latino entrepreneurship were:

1. Florida
2. Virginia
3. Tennessee
4. Maryland
5. Alabama/Indiana (tied)

FIGURE 10: STATES WITH THE SMALLEST GAPS BETWEEN LATINO AND NON-LATINO BUSINESS OWNERSHIP



<sup>1</sup> The only metro for which the difference in business ownership rate for Latinos and non-Latinos was not statistically significant was West Virginia—and the standard error was high for this location

FIGURE 11: RATE OF LATINO AND NON-LATINO ENTREPRENEURSHIP, STATES

RANK	STATE	LATINO ENTREPRENEURSHIP RATE <sup>1</sup>	NON-LATINO ENTREPRENEURSHIP RATE <sup>1</sup>	LATINO ENTREPRENEURSHIP SCORE <sup>2</sup>
1	FLORIDA	13.1	21.6	0.61
2	VIRGINIA	7.5	16.5	0.45
3	TENNESSEE	4.9	12.9	0.38
4	MARYLAND	6.1	16.8	0.36
5-6	INDIANA	5.2	14.7	0.35
5-6	ALABAMA	4.5	13.0	0.35
7-8	ILLINOIS	6.5	19.7	0.33
7-8	GEORGIA	5.3	16.2	0.33
9-10	NORTH CAROLINA	4.8	15.8	0.30
9-10	OREGON	6.5	21.9	0.30
11	OKLAHOMA	5.1	17.7	0.29
12-13	NEW JERSEY	6.3	22.7	0.28
12-13	NEW YORK	6.6	24.0	0.28
14	NEW MEXICO	5.6	20.6	0.27
15-16	TEXAS	5.1	19.3	0.26
15-16	WASHINGTON	5.2	20.2	0.26
17+	PENNSYLVANIA	3.8	16.4	0.23
17+	MASSACHUSETTS	4.3	19.6	0.22
17+	ARIZONA	3.7	17.6	0.21
17+	WISCONSIN	3.7	17.6	0.21
17+	NEVADA	4.0	19.3	0.21
17+	COLORADO	5.2	26.4	0.20
17+	CALIFORNIA	4.6	24.5	0.19

<sup>1</sup> Per 1,000 of the population

<sup>2</sup> Difference in rate of Latino and non-Latino business owners (Latino rate as a ratio of non-Latino Rate, where 1 = rate is the same)

## DRIVERS OF THE ENTREPRENEURSHIP GAP

Share of local Latino population does not seem to be a driver of the size of the Latino entrepreneurship gap, as shown on the scatter plot in Figure 12, and there is a small negative correlation between the two measures.

While we cannot state for sure what exactly causes these differences, there are at least three potential drivers:

### 1. Educational Background

Entrepreneurs who own employer businesses are highly educated—52 percent of all employer businesses in the U.S. are owned by people with a bachelor's degree or higher. The places with higher performance for Latino entrepreneurship may have a higher share of highly educated Latinos. We note that the *2017 State of Latino Entrepreneurship* report has shown that Latino entrepreneurs are more educated than the general Latino population.

### 2. Immigrant Population

Immigrants are about twice as likely as the native-born to start new businesses, regardless of firm size.<sup>1</sup> And, the prevalence of immigrants among Latino entrepreneurs is high; they own about 51 percent of all Latino-owned employer businesses in the U.S. and nearly the same percentage of scaled firms (businesses with over \$1 million in revenue), according to SLEI data. High-performing locations may have higher rates of immigrant entrepreneurs.

### 3. Minority Population Threshold

The sociological literature points to a minority threat to explain how communities and policymakers respond to an influx of a minority population.<sup>2</sup> According to racial threat theory, we could expect higher levels of restrictionism in entrepreneurship within states and regions with the largest concentrations of Latinos. The threats arise due to increase in competition, real or perceived, and other economic, political and symbolic threats. However, this relationship is not linear as large concentrations of Latinos (or any minority group) can mobilize resources to counter exclusionary practices and policies. Taken together, we must consider the state- and local-level policies in areas with large concentrations of Latinos, like Texas and California, that present some of the lowest Latino Entrepreneurship Scores.

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<sup>1</sup> 2017 Kauffman Index of Startup Activity

<sup>2</sup> For more on racial threat research see Blalock (1967) or Key (1949)

FIGURE 12: LATINO ENTREPRENEURSHIP SCORE AND SHARE OF POPULATION, STATES



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs and American Community Survey data



# METROPOLITAN AREA-LEVEL INSIGHTS

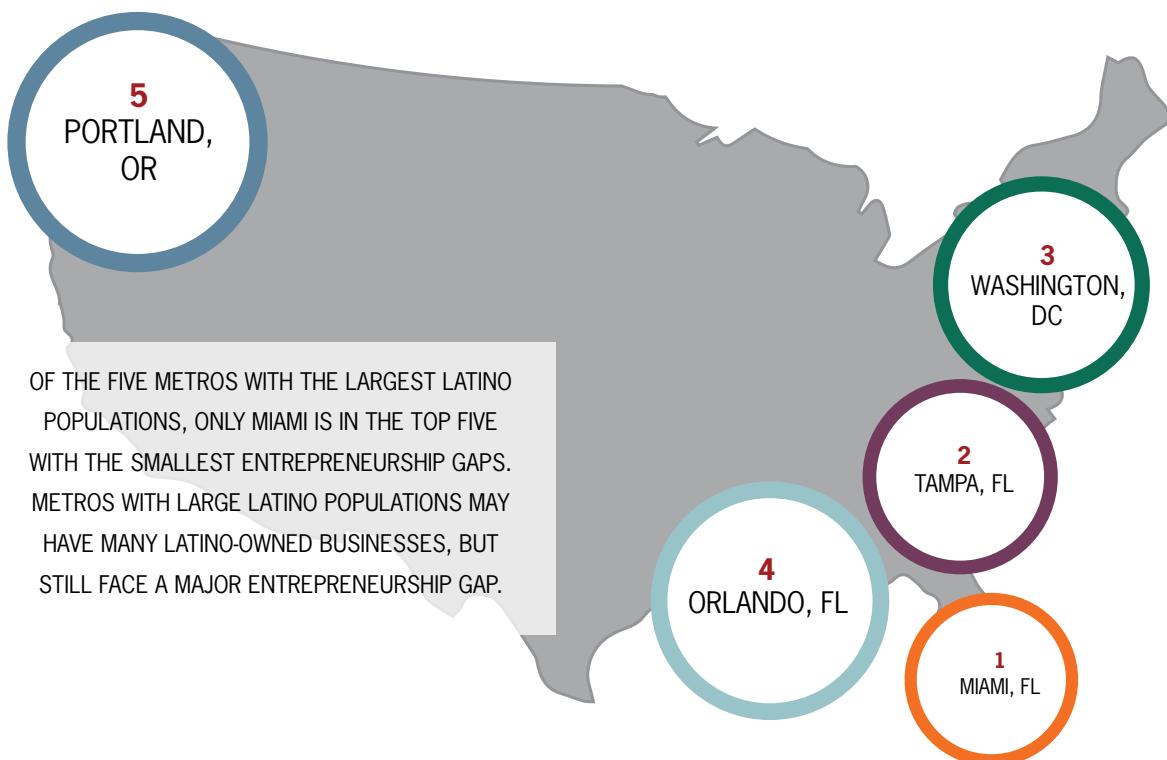
Similar to what we see for states, the Latino entrepreneurship gap exists for every metro among the 50 largest ones by population in the country, and varies widely across them.<sup>1</sup>

To measure the gap, we use the Latino entrepreneurship score defined in the previous section. For the purposes of this analysis, we focused on metropolitan areas where the relative standard error of estimates was relatively small (we chose 15 percent relative standard error for the number of Latino-owned employer businesses in the location as the cutoff).

The five metropolitan areas with the smallest Latino entrepreneurship gaps were:

1. Miami-Fort Lauderdale-West Palm Beach, FL Metro Area
2. Tampa-St. Petersburg-Clearwater, FL Metro Area
3. Washington-Arlington-Alexandria, DC-Va.-Md-W.Va. Metro Area
4. Orlando-Kissimmee-Sanford, FL Metro Area
5. Portland-Vancouver-Hillsboro, OR-Wash. Metro Area

FIGURE 13: THE TOP FIVE METROPOLITAN AREAS WITH THE SMALLEST GAPS IN RATE OF LATINO AND NON-LATINO BUSINESS OWNERSHIP



<sup>1</sup> The only metro for which the difference in business ownership rate for Latinos and non-Latinos was not statistically significant was Pittsburgh PA—and the standard error was high for this location

Similar to the state level, share of local Latino population does not seem to be a major driver of the size of the Latino entrepreneurship gap locally, and there is a small negative correlation between the two metrics.

While the metropolitan areas in the country with the largest Latino populations in raw numbers all have large numbers of Latino-owned businesses, partially due to sheer size, not many have small Latino entrepreneurship gaps. Of the 10 metros with the largest Latino populations in the country, only two—Miami and Chicago—are also among the top 10 places with the smallest Latino entrepreneurship gaps in the nation. This means that those metros with very large Latino populations may have many Latino-owned businesses, but they still have a major divide in entrepreneurship rates compared to non-Latinos.

Relatedly, since the Latino Entrepreneurship Score measures local differences in entrepreneurship rates between Latinos and non-Latinos, this means that some places show relatively low scores even though they have relatively high entrepreneurship rates for both groups when compared to other metropolitan areas. Los Angeles is one such example, with a very low Latino Entrepreneurship Score, despite being in the lower middle for overall Latino entrepreneurship rates and very high non-Latino entrepreneurship rates.

Another example is Miami, one of the few metropolitan areas with strong performance across all three indicators. It also bears mentioning that San Francisco and San Jose—both part of Silicon Valley—do not show particularly well on the indicators tracked. This is surprising, as Silicon Valley has the highest performance in tech entrepreneurship globally and is regarded as a world leader in entrepreneurial innovation.<sup>1</sup> However, when we look beyond just tech companies and high-growth indicators, Silicon Valley does not necessarily have the highest Latino entrepreneurship rates. As we take a big tent approach here, looking at all employer businesses in a sector- and size-agnostic way, we see Silicon Valley not necessarily at the top, consistent with other research looking at broadly defined entrepreneurship.<sup>2</sup>

FIGURE 14: LATINO ENTREPRENEURSHIP SCORE AND SHARE OF POPULATION, METRO AREAS



Source: Author's calculations from Annual Survey of Entrepreneurs and American Community Survey data

<sup>1</sup> 2017 Global Startup Ecosystem Report, Startup Genome

<sup>2</sup> For examples, see Hathaway (2018), the Kauffman Entrepreneurship Indices, or analysis based on the U.S. Census Business 1977-2015 Dynamics Statistics data

FIGURE 15: LATINO ENTREPRENEURSHIP SCORE RANKINGS – U.S. METRO AREAS

RANK	CITY	METRO AREA	LATINO ENTREP. RATE <sup>1</sup>	NON-LATINO ENTREP. RATE <sup>1</sup>	LATINO ENTREP. SCORE <sup>2</sup>
1	MIAMI	MIAMI-FORT LAUDERDALE-WEST PALM BEACH, FL	17.9	30.2	0.59
2	TAMPA	TAMPA-ST. PETERSBURG-CLEARWATER, FL	9.3	20.2	0.46
3	WASHINGTON	WASHINGTON-ARLINGTON-ALEXANDRIA, DC-VA-MD-WV	7.1	18.0	0.39
4	ORLANDO	ORLANDO-KISSIMMEE-SANFORD, FL	7.9	22.1	0.36
5	PORTLAND	PORTLAND-VANCOUVER-HILLSBORO, OR-WA	7.3	22.2	0.33
6-7	RALEIGH	RALEIGH, NC	6.1	19.6	0.31
6-7	ATLANTA	ATLANTA-SANDY SPRINGS-ROSWELL, GA	5.7	18.4	0.31
8	CHICAGO	CHICAGO-NAPERVILLE-ELGIN, IL-IN-WI	6.6	21.8	0.30
9-10	SACRAMENTO	SACRAMENTO-ROSEVILLE-ARDEN-ARCADE, CA	4.9	16.7	0.29
9-10	SEATTLE	SEATTLE-TACOMA-BELLEVUE, WA	6.2	21.3	0.29
11-12	MINNEAPOLIS	MINNEAPOLIS-ST. PAUL-BLOOMINGTON, MN-WI	5.6	20.0	0.28
11-12	SAN FRANCISCO	SAN FRANCISCO-OAKLAND-HAYWARD, CA	6.5	23.5	0.28
13-15	SAN ANTONIO	SAN ANTONIO-NEW BRAUNFELS, TX	5.1	20.3	0.25
13-15	BOSTON	BOSTON-CAMBRIDGE-NEWTON, MA-NH	5.0	20.0	0.25
13-15	NEW YORK	NEW YORK-NEWARK-JERSEY CITY, NY-NJ-PA	6.8	27.3	0.25
16+	PHILADELPHIA	PHILADELPHIA-CAMDEN-WILMINGTON, PA-NJ-DE-MD	4.4	18.0	0.24
16+	SAN DIEGO	SAN DIEGO-CARLSBAD, CA	6.0	24.6	0.24
16+	AUSTIN	AUSTIN-ROUND ROCK, TX	5.1	22.9	0.22
16+	HOUSTON	HOUSTON-THE WOODLANDS-SUGAR LAND, TX	4.3	20.0	0.22
16+	DENVER	DENVER-AURORA-LAKWOOD, CO	5.4	25.4	0.21
16+	SAN JOSE	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	4.9	23.1	0.21
16+	RIVERSIDE	RIVERSIDE-SAN BERNARDINO-ONTARIO, CA	3.7	17.7	0.21
16+	DALLAS	DALLAS-FORT WORTH-ARLINGTON, TX	3.9	19.2	0.20
16+	LAS VEGAS	LAS VEGAS-HENDERSON-PARADISE, NV	3.4	18.6	0.18
16+	PHOENIX	PHOENIX-MESA-SCOTTSDALE, AZ	3.3	18.5	0.18
16+	LOS ANGELES	LOS ANGELES-LONG BEACH-ANAHEIM, CA	5.0	33.3	0.15

<sup>1</sup> Per 1,000 of the population

<sup>2</sup> Difference in rate of Latino and non-Latino business owners (Latino rate as ratio of non-Latino rate, where 1 = rate is the same)



# CONCLUSION

**The *U.S. Latino Entrepreneurship Gap* report presents a quantifiable metric with which to measure the gap in entrepreneurship participation between Latinos and non-Latinos, known as the “Latino Entrepreneurship Score.” This standardized measure allows for comparisons across national, state, and metropolitan areas. In this way, business and policy leaders alike can benchmark their progress over time and measure their progress in closing the Latino entrepreneurship gap.**

Stanford Latino Entrepreneurship Initiative (SLEI) research annually reports on the state of Latino business ownership with focused attention on the challenges facing Latino entrepreneurs as they seek to grow their businesses. Closing the scaleup gap is critical, as this could bring an additional 5.3 million jobs contributed to the U.S. economy. This report brings us closer to understanding the scaleup gap. Future research can compare regions with high Latino Entrepreneurship Scores as these areas are fostering positive Latino business ownership growth.

While Miami has historically promoted a vibrant business community with the influx of Cuban entrepreneurs, other metro areas surfaced as regions to explore. These include Tampa, Washington D.C., Orlando, Portland (Oregon), and the surrounding areas of these cities. Similarly, states in which Latino business ownership is burgeoning include Florida, Virginia, Tennessee, Maryland, Alabama and Indiana. To be sure, there is much work to be done as all 50 states and Washington D.C., plus the 50 largest metro areas, exhibit a broad Latino entrepreneurship gap.

Researchers have historically studied Latino entrepreneurship in Latino-dense areas. However, as this report shows, a large Latino population does not imply a small gap in Latino entrepreneurship. Among the top 10 metro areas with the largest Latino populations, only Miami and Chicago make the top 10 of the metros with the highest Latino Entrepreneurship Scores. These scores ultimately allow for a localized and comparative view of the overall health of Latino entrepreneurship. Understanding where these gaps are located presents a path forward in the efforts to close the Latino entrepreneurship gap and make way for the full contributions of Latino entrepreneurs to the U.S. economy.



# METHODOLOGY AND FRAMEWORK

## LATINO ENTREPRENEURSHIP RATE AND NON-LATINO ENTREPRENEURSHIP RATE

### Definition

The Latino entrepreneurship rate is a ratio of the total number of firms owned by Latinos ( $LB$ ) to the Latino population ( $LP$ ) in a given location  $i$ . Similarly, the non-Latino rate is a ratio of firms owned by non-Latinos ( $NLB$ ) to the non-Latino population ( $NLP$ ).

### Data Sources

To calculate the number of firms owned by the Latino population, the underlying data used was the Annual Survey of Entrepreneurs (ASE) for the year 2015, the latest year with data available. We used the data broken down by Hispanic and non-Hispanic ethnicity (which we refer to in this paper as Latino and non-Latino). The ASE is an annual survey founded by the U.S. Census Bureau, the Ewing Marion Kauffman Foundation, and the Minority Business Development Agency (MBDA). The survey includes all nonfarm businesses with paid employees and receipts of \$1,000 or more that file Internal Revenue Service tax forms as individual proprietorships, partnerships, or any type of corporation.

The population data used was obtained from the 2015 American Community Survey (five-year estimates), a national survey that uses a series of monthly samples to produce annual estimates for the same small areas that were previously surveyed via the decennial census long-form sample.

#### Calculations

To calculate the total number of businesses owned by Latinos, we consider only firms owned by a Latino majority.

For each location,  $i$ , the total number of firms owned by Latinos ( $LB$ ) is normalized by the size of the Latino population ( $LP$ ):

$$\text{Latino Entrepreneurship Rate} = \frac{LB}{LP_i}$$

The same metric and method is used for non-Latinos, where:

$$\text{Non - Latino Entrepreneurship Rate} = \frac{N LB_i}{N LP_i}$$

#### Standard Error Calculations

To calculate the standard error for the total number of firms owned by Latinos, we convert the provided relative standard errors ( $rse$ ) as follows:

$$se(LB_i) = \frac{rse(LB_i)}{100} \times LB_i$$

We then calculate the standard errors for the Latino population figures using the 90 percent margin of error ( $moe$ ) provided by the U.S. Census Bureau.

$$\alpha(LP_i) = \frac{moe(LP_i)}{1.645}$$

Finally, we calculate the standard error for the Latino Entrepreneurship Rate as follows:

$$\alpha(\text{Latino Entrepreneurship Rate}) = \text{Latino Entrepreneurship Rate} \times \sqrt{\left(\frac{\alpha(LP_i)}{LP_i}\right)^2 + \left(\frac{\alpha(LB_i)}{LB_i}\right)^2}$$

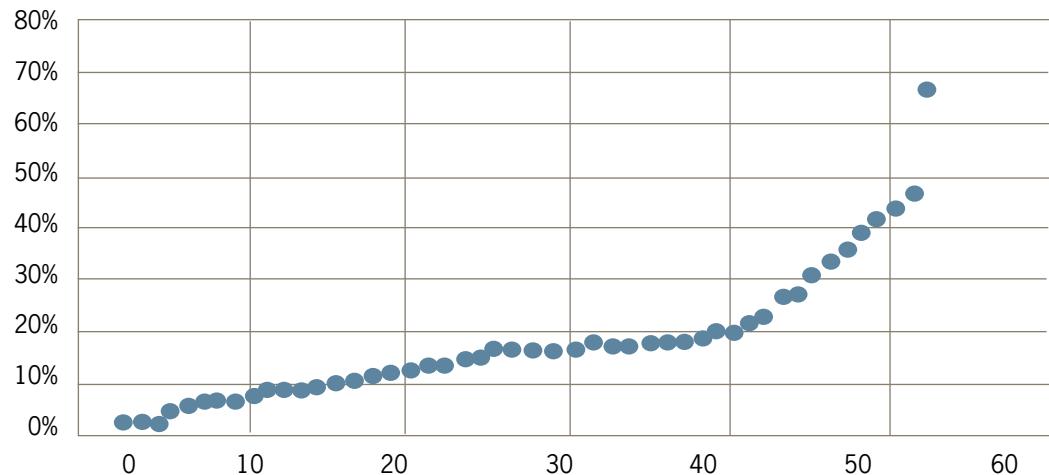
Hence, 95 percent confidence interval =  $\text{Latino Entrepreneurship Rate}$

$$\pm 1.959964 * \alpha(\text{Latino Entrepreneurship Rate})$$

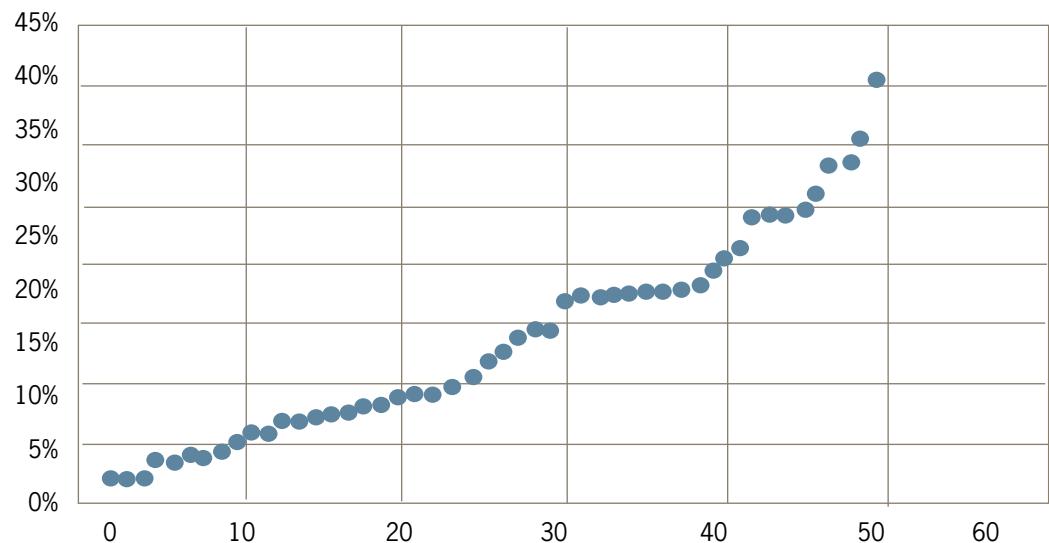
*The same metric and method is used for non-Latinos for all the above caluculations.*

FIGURE 16: RELATIVE STANDARD ERRORS FOR LATINO-OWNED BUSINESSES

RELATIVE STANDARD ERRORS, FOR STATES



RELATIVE STANDARD ERRORS, FOR METRO AREAS



Source: Author's calculations from the 2015 U.S. Census Bureau Annual Survey of Entrepreneurs

## LATINO ENTREPRENEURSHIP SCORE

The Latino Entrepreneurship Score is a measure of the gap in entrepreneurship rates between Latinos and non-Latinos in the U.S.

We define the Latino Entrepreneurship Score,  $S_i$ , as the difference in the rate of business ownership between the Latino and the non-Latino population.

$$S_i = \frac{LB_i}{LP_i} / \frac{NLB_i}{NLP_i}$$

This measure includes employer firms, regardless of size.

## ENTREPRENEURSHIP FUNNEL DATA SOURCES

For the data sources on the funnel we used a combination of the American Community Survey (ACS), the Current Population Survey (CPS), and the Annual Survey of Entrepreneurs (ASE), all for the year of 2015. A plausible data source we considered using, but did not, was the Survey of Business Owners (SBO), because the most recent year available for it is 2012. If we used the SBO as a measure for self-employed business ownership, we would get higher total counts of businesses for both groups (and thus a higher conversion ratio). However, the differences in conversion ratios between Latinos and non-Latinos would be similar. Using the CPS, as we do here, the Latino conversion ratio is 39 percent smaller than that for

MEASURE	DATA SOURCE
POPULATION	2015 AMERICAN COMMUNITY SURVEY
SELF-EMPLOYED BUSINESS OWNERS	2015 CURRENT POPULATION SURVEY
BUSINESSES WITH EMPLOYEES	2015 ANNUAL SURVEY OF ENTREPRENEURS
SCALED BUSINESSES (\$1M+)	2015 ANNUAL SURVEY OF ENTREPRENEURS



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# ABOUT US

**Stanford Graduate School of Business (GSB) has established itself as a global leader in management education through educational programs designed to develop insightful principled global leaders. Stanford GSB supports faculty research, curriculum development, and interaction among academic disciplines.**

## **STANFORD LATINO ENTREPRENEURSHIP INITIATIVE**

Stanford Latino Entrepreneurship Initiative (SLEI) is a research and education collaboration between Stanford University and the Latino Business Action Network (LBAN), a 501(c)(3) not-for-profit organization.

### **SLEI Research Program**

SLEI explores and expands our knowledge of the Latino entrepreneurship segment in the U.S. economy through research, knowledge dissemination, and facilitated collaboration. The effort, jointly supported by LBAN and Stanford, aims to:

- Grow the current database of more than 1.3 million U.S. Latino-owned companies and survey a panel of more than 5,000 independent companies
- Support the advancement of knowledge and discourse by generating significant research, and broadly disseminating its findings

### **SLEI Education Scaling Program**

Stanford Latino Entrepreneurship Initiative–Education Scaling program is an investment in Latino business owners who generate more than \$1 million in annual revenue or have raised at least \$500,000 of external funding. This immersive program, sponsored by LBAN and facilitated by GSB Executive Education, provides business owners with education, enhanced networks, personal mentorship, and a better understanding of how to access capital to scale their businesses. The program has more than 350 alumni from 25 states and Puerto Rico who collectively generate over \$1.2 billion in annual revenue.

## **LATINO BUSINESS ACTION NETWORK**

The Latino Business Action Network (LBAN) works to make America stronger by empowering Latino entrepreneurs to grow large businesses through entrepreneurship research, education, and networks. LBAN's goal is to double the number of \$10 million, \$100 million, and \$1 billion Latino-owned businesses by 2025. To learn more, visit [www.lban.us](http://www.lban.us).



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