

Ramona Schindelheim, WorkingNation editor-in-chief:

You're listening to Work in Progress. I'm Ramona Schindelheim, editor-in-chief of WorkingNation. Work in Progress explores the rapidly changing workplace through conversations with innovators, educators, and decision makers, people with solutions to today's workforce challenges.

Ramona Schindelheim, WorkingNation editor-in-chief:

Latinos now make up 19% of the total US population, having grown 23% over the past decade to more than 62 million people. Latinos also continue to play an important role in the country's economy, making up 14% of the workforce, and increasingly as job creators themselves.

Ramona Schindelheim, WorkingNation editor-in-chief:

Marlene Orozco is the associate director of the Stanford Latino Entrepreneurship Initiative. She's here with me today to talk about their new annual report on the state of business creation in the Latino community. Marlene, welcome to WorkingNation's Work in Progress.

Marlene Orozco, SLEI Associate Director:

Thank you, Ramona, happy to be here.

Ramona Schindelheim, WorkingNation editor-in-chief:

I've read your reports before, over the few years, and what struck me about this one is something I noticed before, that Latinos are starting businesses still faster rate than any other groups. That's true, right?

Marlene Orozco, SLEI Associate Director:

That's correct. If we look at the last 10 years alone, the number of Latino-owned businesses has grown 44% compared to just 4% for non-Latinos. Now, this is not just happening in those businesses that are non-employer businesses or solo-led businesses. This growth is also happening in employer businesses. This is important because employer businesses are job creators. In the last 10 years, the number of Latino-owned employer businesses has grown 35%, compared to just 5% for all others. We're seeing these trends across the board of all sizes and types of Latino-owned businesses.

Ramona Schindelheim, WorkingNation editor-in-chief:

Tell me that distinction that you're talking about between the two types.

Marlene Orozco, SLEI Associate Director:

There's an important distinction when you think about types of businesses. Our report focuses exclusively on employer businesses, and that's a business that has at least one paid employee other than the business owner, him or herself. The US Census Bureau, so the federal government, also collects data on an annual basis on just employer businesses. These are important in terms of revenue creators and job creators. Employer businesses in the US make up over 80% of all small business sales. They're, again, a significant portion of the small business ecosystem.

Marlene Orozco, SLEI Associate Director:

Now, there are a significantly larger number of non-employer businesses. If we just think about Latinos, only 9% of all Latino-owned businesses are employer businesses. This is a small slice of the pie. In fact, we've uncovered that one of the biggest thresholds for Latinos to undergo is going from a solopreneur, a self-employed person with nobody on payroll, to becoming an employer business. That is a significant hurdle that is really exacerbated by a number of challenges as it relates to capital, for instance, because you need cash in the bank in order to be able to pay your employees and do payroll.

Ramona Schindelheim, WorkingNation editor-in-chief:

Those solo businesses are somebody maybe starting a small business or a micro business, as opposed to an incorporated even business, but they're making money, maybe a little extra money on the side probably, or it could be a full-fledged business like a florist shop that doesn't have an extra employee.

Marlene Orozco, SLEI Associate Director:

That's right. That's the distinction that we make in our reports. When we focus on the state of Latino entrepreneurship, we look at the businesses that are really the primary means of income for a family. We live in a world where there's the big, booming gig economy, so somebody could be an Uber driver, et cetera, but they have no means of ownership over the actual corporation. We're looking at business owners that have control over the growth and scale of their business.

Ramona Schindelheim, WorkingNation editor-in-chief:

You brought it up already, it's pretty remarkable that the Latino-owned businesses are being created at such a fast rate, despite that lack of access to capital. This has been going on for a long time. I mean, has there been any progress made to open those dollar floodgate a little bit more?

Marlene Orozco, SLEI Associate Director:

Well, we hope with our reporting that we're making some headway with decision makers. Last year we reported on this really stark outcome on the fact that if you're a Latino business owner and you have comparable revenue growth, profitability, credit scores to a white business owner, your odds are being approved from a national bank are 60% lower. That's a huge gap. The inputs are the same, but the outputs are disparate.

Marlene Orozco, SLEI Associate Director:

In this year's report, we uncover the fact that Latino business owners are more often asked to provide collateral for their business, again, even when they look comparable on paper in terms of their business performance. There's certainly some discrepancies at play here. Some may dub these as implicit biases within the system, but we're really trying to point out where some of these gaps are so that decision makers, capital providers, can start to hone in and hopefully rectify some of these gaps.

Ramona Schindelheim, WorkingNation editor-in-chief:

A couple of weeks ago, I spoke to Nicole Elam, who's the CEO of the National Bankers Association. She was saying they represent minority-owned banks and one of the reasons they're so important in the community is because of this very issue, that the underrepresented populations, the Latinos or the Black populations, are not getting the same access to capital and so there's a lot of dependence on community banks. Do you guys look at that at all?

Marlene Orozco, SLEI Associate Director:

Absolutely. Community development financial institutions played a really critical role throughout the course of the pandemic in terms of connecting entrepreneurs of color, Latino entrepreneurs to pandemic relief aids. They really stepped up to fill the gap. Part of that is the relationships that they have already within the community. It's not just about deploying capital, but it's about providing technical assistance and support and really walking through the business owner on a number of products that are available and tailoring that experience. Oftentimes, that's being accomplished at the local and community level.

Marlene Orozco, SLEI Associate Director:

In our report, we also share the story of Juan Hernandez. We have several case studies featured in our report this year. Juan Hernandez is the CEO and co-founder of Creser Capital Fund, which is based Sonoma County. Sonoma County was hit with a number of wildfires in 2017 and thereafter as well, and of course also crushed by the pandemic. There's a real need in places like Sonoma County to connect entrepreneurs with working capital, with pandemic relief aid, and CDFIs like Creser Capital are stepping up to fill that need.

Ramona Schindelheim, WorkingNation editor-in-chief:

I seem to recall from a previous report, it must have been last year's, that PPP funding really, really helped the Latino business entrepreneurs, but there was some problem getting access to it. Did you see that again in 2021?

Marlene Orozco, SLEI Associate Director:

That's right. We looked at PPP spanned over a year and a half and there was over \$800 billion deployed to small businesses through the PPP. The SBA at some point even paused obtaining applications and really focused on just serving those that had been underserved in the earlier parts of the PPP.

Marlene Orozco, SLEI Associate Director:

I will say that there were still overall some gaps and there was a huge need from Latino entrepreneurs who desired pandemic relief aid, like the PPP and other SBA products, like the EIDL loans and disaster relief aid. But the gaps persist, but Latinos are being creative in terms of their resourcefulness and finding ways to mitigate the negative impacts of the pandemic through proactive business strategies, whether it's providing new business products and services and finding new revenue streams, despite this lack of access to capital on the whole.

Ramona Schindelheim, WorkingNation editor-in-chief:

I think there's also a lot of dependence on savings and credit cards to get through the pandemic.

Marlene Orozco, SLEI Associate Director:

That's absolutely right, and that will have a snowball effect longer term in terms of being able to pay back those debts that were personally acquired to keep the business afloat. There was some sense of concern as well with the PPP, for instance, that if they didn't meet all of the requirements or all of the paperwork to then have that loan forgiven, that they would then carry that debt moving forward. Of course, if you applied for forgiveness, then the loan converted to a grant. On the whole, we're still seeing that folks are working towards submitting their application to get those loans forgiven.

Ramona Schindelheim, WorkingNation editor-in-chief:

I want to talk about the kind of businesses that are being created and then talk a little bit more about employees and the job creation. One of the things that I saw in the report is that Latinos are no less likely than non-Latinos to create a tech business. Tell me what kind of tech businesses we're talking about here, because you hear about all the big ones, you don't hear so much about the little ones.

Marlene Orozco, SLEI Associate Director:

On our survey, we asked about industry similar to the way that the federal government collects industry data. We use the NAICS system of industry classification, and this cuts industries across, for instance, construction, professional development, and real estate. But within those industries, there are several lines of businesses that are either tech-enabled or tech-producing. You could be a construction company, like Maria Rios, who is in fact a Latina business owner of a large waste management company, the first Latina of a waste management company. She produces safety gear on helmets. She's collaborated with IBM. She's producing the technology through her company, but that doesn't necessarily get picked up on with those industry classifications.

Marlene Orozco, SLEI Associate Director:

In our survey, we asked very explicitly whether the business is developing and selling a technology or software product. In fact, we find that 14% of Latino-owned employer businesses are developing a technology or software product, 19%. This is compared to 14% among white-owned employer businesses that were surveyed. Now, these findings were validated with an external survey of the US census. They have the annual business survey also of employer businesses, and that survey looks very specifically at different types of technology production, artificial intelligence, cloud-based and specialized software. There, we can see that the representation Latino-owned businesses, again, is equal, if not greater to that, of their white counterparts.

Marlene Orozco, SLEI Associate Director:

But what these findings are showing is demystifying this notion that a tech pipeline doesn't exist among Latino-owned businesses. It is very real and present, certainly if given the opportunity to continue to grow and scale these kinds of businesses.

Ramona Schindelheim, WorkingNation editor-in-chief:

What kind of job growth are we seeing from these businesses that are being created?

Marlene Orozco, SLEI Associate Director:

We're seeing dramatic job growth that is being created by Latino-owned businesses, either growing their businesses at a faster rate than all other demographic groups, but they're also hiring employees at a dramatically faster rate than all others. Since 2007, the number of employee growth has been 55% for Latino-owned businesses compared to just 8% for white-owned businesses. Latinos are very real job creators and contributors to the US economy.

Ramona Schindelheim, WorkingNation editor-in-chief:

I also saw that it's more likely that these Latino-owned businesses are going to help an employee grow through the ranks and be promoted. I thought that was pretty interesting.

Marlene Orozco, SLEI Associate Director:

That's right. We looked at work that was being done, for instance, by the Good Jobs Institute. They define what a good job is, and it's not just income. It is also the opportunities for advancement and the benefits, the safety net that employer businesses provide.

Marlene Orozco, SLEI Associate Director:

In this year's report, we created a number of indices that looks specifically at the opportunities that Latino-owned employer businesses are providing and the types of benefits. We found that, on the whole, Latino-owned employer businesses are more employee centered and focused than their white counterparts. This is true across all sizes of businesses, and this is true across gender, for instance. Again, we sliced and diced the data in a number of ways and we found that, on the whole, Latino-owned businesses are really focused on their employees, their career development and advancement. In fact, one entrepreneur, Daniel Montes, who is a speaker at our event, he very purposefully drives his company through the advancement and promotion of his employees. It's kind of a workforce company that provides a workforce for cleaning, a number of services to big corporations. He's very transparent with his employees about what their packages of employment look like and what the growth potential at that company will be.

Ramona Schindelheim, WorkingNation editor-in-chief:

Women seem to be creating companies faster than men are too, right? I find that really pretty interesting, that they have that entrepreneurial spirit. You and I had talked about that a couple years ago, it was a big finding in your report that women were leading this job growth. Is at the same in 2021?

Marlene Orozco, SLEI Associate Director:

That is still the same in 2021. A lot of women we're entering the entrepreneurial workforce largely because of the flexibility it provides. We're continuing to see some of that throughout the course of the pandemic. In fact, if we think about all of the Latino businesses, 45% of them are now owned by women. Women are starting businesses at a fast rate, almost equaling parity here pretty soon.

Ramona Schindelheim, WorkingNation editor-in-chief:

With a lot of women stepping out of the workforce to become caregivers, staying home with their children, because of that, I can see starting your own business could have a lot of flexibility and value for any woman.

Marlene Orozco, SLEI Associate Director:

That's absolutely right. Those were the primary reasons why women were reporting leaving the workforce, was to have greater flexibility for childcare or because they were not being met with a promotional opportunity at work so they were going to carry that work for themselves and start their own companies. It's interesting right now what's happening throughout the course of the pandemic and employers being more open to provide flexible work arrangements. In fact, our survey looks at the fact that these working-from-home arrangements, it's really here to stay, even among Latino-owned businesses. It'll be interesting to see whether that continues to encourage or deter entrepreneurship if in fact employers, large employers, are now more open and amenable to flexibility.

Ramona Schindelheim, WorkingNation editor-in-chief:

You talked to a lot of these entrepreneurs that you surveyed and asked them how they feel about coming out of the pandemic. Are they optimistic or pessimistic? What did you find?

Marlene Orozco, SLEI Associate Director:

We found resounding optimism. We've been surveying entrepreneurs since 2015 really, but very closely throughout the course of the pandemic. Some of the optimism had waned late 2020, but by all accounts, we saw an important bounce back throughout 2021. When we compared the impact of the pandemic in terms of revenue and other negative challenges that businesses were facing, we see a bounce back in 2021. With that, we also see an optimism for the future.

Marlene Orozco, SLEI Associate Director:

Of course, our survey was administered in the summer of 2021, so it doesn't capture the current wave that we're in, but nonetheless, it is a roller coaster, but optimism is high about their ability to recover. Certainly, pandemic relief aid has been a critical lifeline in that. For many entrepreneurs, it was the first large infusion of cash that their business was able to acquire. Entrepreneurs are definitely using it for payroll purposes, but with the flexibility built in, for an auto repair shop, they were able to move into a larger space with the funding that they were able to obtain. There are real opportunities for continual growth. Then we're also seeing an infusion of VC dollars, for instance, in 2021, greater than in any year before that. With this focus on supporting small businesses to not only survive the pandemic, we're hoping that there's a real focus on ensuring that they thrive as well.

Ramona Schindelheim, WorkingNation editor-in-chief:

We talked a lot about how Latino business owners are creating tech companies at a rate similar to non-Latinos, but one of the things that we have talked about here at WorkingNation, and we're going to talk about soon in SXSU EDU, is that 35% of all workers have no or little digital skills. The question is, how do we fix that so then there are more pathways to opportunity for businesses for Latino community?

Marlene Orozco, SLEI Associate Director:

Yeah, that's a really important question. As we're undergoing the fourth industrial revolution, there's a real need to upskill and re-skill the workforce. For the Latino population, which of course is undergoing a transformation in terms of greater numbers of Latinos who are obtaining higher levels of education, but there's still a subset of unskilled Latinos. I think part of the solution to that challenge is to meet people where they are. There was this huge talk before about a digital divide, and certainly we're continuing to see some of that, but Latinos over index on smartphone usage and they over index on social media platforms.

Marlene Orozco, SLEI Associate Director:

These are tools that even my mother, who has a sixth grade education, she can send me GIFs and she can send me videos through Facebook Messenger and sends me emojis. She is equipped to navigate a mobile phone, but now how do we transfer that into software and computers and automation on a broader scale? It's a matter of absolutely having direct hands-on training and support. Many folks like my mom have leveraged their children to support with this, but how do we do this on a broader and scalable level? I think that's an important question, and it has to do with still humanizing that connection. We're in this digital space, but they need to have the access to the support, whether it's a video person who can walk them through some of the challenges. But I think part of that is some of the solution there.

Ramona Schindelheim, WorkingNation editor-in-chief:

Before we wrap up, my last question to you, Marlene, is did anything in this report surprise you, anything that you took as a sign of greater things to come?

Marlene Orozco, SLEI Associate Director:

I was really heartened by the fact that we uncovered that Latino business owners have a greater likelihood of making positive business pivots and strategies to mitigate the negative challenges of the pandemic. This includes offering new business products and services, adoption of technology. These are all things that were perhaps incorporated as a matter of survival, but they will have longterm effects. For businesses that finally were pressed to optimize accounting services and transfer that into a digital space, we hope that this will continue to have a rippling effect and some downstream positive impacts as well. I'm really heartened by the strategies and the resilience of Latino-owned businesses to navigate the pandemic through their resourcefulness and through great adoption of new strategies.

Ramona Schindelheim, WorkingNation editor-in-chief:

Marlene, thank you for taking the time to talk to me about the new report.

Marlene Orozco, SLEI Associate Director:

It's been my pleasure, Ramona.

Ramona Schindelheim, WorkingNation editor-in-chief:

I've been speaking with Marlene Orozco, the associate director of the Stanford Latino Entrepreneurship Initiative. I'm Ramona Schindelheim, editor-in-chief of WorkingNation. Thank you very much for listening.