

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.

The 2022 State of Latino Entrepreneurship Report has just been released. It's the eighth annual report from the Stanford Latino Entrepreneurship Initiative, which examines progress and challenges for Latino-owned businesses, which is the fastest-growing segment of the US business population. I am pleased to welcome the initiative's associate director, Barbara Gomez. Barbara, thank you very much for joining us.

Bárbara Gómez, Ph.D., SLEI Associate Director:

Hi, Ramona. Thank you so much for hosting.

Ramona Schindelheim, WorkingNation editor-in-chief:

I'd like to first start out by telling people about the initiative for those who are unfamiliar with the work you do and how long you've been doing it.

Bárbara Gómez, Ph.D., SLEI Associate Director:

The Stanford Latino Entrepreneurship Initiative is a joint collaboration with the Stanford Graduate School of Business, as well as the Latino Business Action Network. It started almost a decade ago, and basically we have different programs. One of them is related to the research initiative that we conduct, which we're going to talk about today. And the second part of the SLE Initiative is education. So we have an executive education program through the Graduate School of Business, targeted and scale Latino businesses with the purpose of helping them expand and scale their businesses so that they continue to grow and contribute to the US economy at a greater rate than they're currently doing.

And then the last part of SLEI is network, the network pillar, which is done jointly with the Latino Business Action Network. Basically, we know that ecosystems are powerful and we want to create a network or an ecosystem where Latino businesses can interact with each other, can do business with each other, and can help each other succeed.

Ramona Schindelheim, WorkingNation editor-in-chief:

So you just mentioned the economic contribution of Latino businesses. How many are there and what kind of revenue are they generating?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Today, when we think about US Latinos, one in every five Americans identify as Latino, Latina, or of Hispanic descent. And jointly all Latinos in the US have an economic output of \$2.8 trillion a year. The last year, that was their economic output. That if Latinos were a country, they would be the fifth, actually, largest country economically. But we know that they are not only consumers. In addition to their economic output, there's almost 5 million Latino-owned businesses across the country. And yeah, they generate a about \$800 billion in annual revenue each year.

Ramona Schindelheim, WorkingNation editor-in-chief:

And in this report, as you have done in the past reports, you are looking at entrepreneurs that have at least one employee, I believe. So tell me what you're finding. What is the top line on today's report?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Yeah, well, we have a lot of findings. One of them that is... We continue to see this pattern. There is a continuous growth that Latino businesses have had in the past decades. We know that Latino business owners continue to strengthen the American economy, not only by increasing the total number of businesses that they start, but also by creating businesses that employ Americans. In fact, one of the biggest findings was that the number of Latino-owned businesses in America increased by 34% between 2007 and 2019, whereas the number of white-owned businesses in the same period of time decreased by seven percentage points.

Ramona Schindelheim, WorkingNation editor-in-chief:

Let's look at that number now. Do you have any idea on why this increase compared to the decrease for the white-owned businesses?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Yeah. When we think about the growth part of it, a smaller portion of it is that the number of Latinos in the United States is growing, but we're also seeing that Latinos might be realizing different economic opportunities.

Ramona Schindelheim, WorkingNation editor-in-chief:

Is there the increased access to capital in addition to this increased growth, or are people using their own money?

Bárbara Gómez, Ph.D., SLEI Associate Director:

That is a very interesting question, Ramona, because we know, as I mentioned earlier, Latino entrepreneurs continue to grow. They continue to thrive in the past decades, even during unprecedented times like the COVID-19 pandemic and the economic uncertainty that we're facing today. But unfortunately, despite all this growth and this strength that they show, Latino-owned businesses continue to face systemic disparities that impact not only the growth of their businesses, but also the American economy. Among those challenges include unequal access to financing, as we reveal in this year report, as well as access to government and corporate contracts.

Ramona Schindelheim, WorkingNation editor-in-chief:

When it comes to the access to loans from national banks, they have a much lower acceptance rate. Correct?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Yeah. This year we had the opportunity to examine that trend, and we found pretty interesting patterns. We found that in general, in 2022, there was a drop in the share of businesses that were seeking financing in 2022 relative to 2021 across virtually all type of funding. And that was for both Latino and white-owned businesses. Those type of sources of funding include personal and family savings, business and personal credit cards, as well as national bank loans. And when we think about who saw the largest

drop in seeking financing, it was white-owned businesses because Latinos actually were 50% more likely than white-owned businesses to request financing in 2022 than whites in 2021.

Ramona Schindelheim, WorkingNation editor-in-chief:

So again, I always come back to the question why I love data. I think data, it really informs a lot, but I always like to know what's going on below that. Why that discrepancy?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Well, when we ask business owners why they decided to request financing, we saw that Latinos were more likely to report that they wanted to get funding to expand their businesses as well as to acquire additional capital assets and meet their operating expenses, which is in line with the continuous growth that we saw this past year as well as the past couple of decades.

Ramona Schindelheim, WorkingNation editor-in-chief:

Another interesting thing I saw on there, and you made reference to it, is it takes a longer time for them to get corporations and government business. With the talk of making sure that there is equal opportunity out there and that there's equal access, what is standing in the way?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Another finding was related to national bank loans. We found out that actually when Latino-owned businesses are applying for national bank loans, they have better, if not actually stronger business metrics than their white-owned businesses counterparts. For example, we found that Latinos have a gross annual revenue that it's three times larger than their white counterparts at the time of application to a national bank loan. We also found Latino and white-owned businesses have similar business and personal credit scores at the time of application to bank loans. And also we found that Latino-owned businesses have lower outstanding debt than white-owned businesses. However, that's great. We're seeing the strength of Latino-owned businesses when they request financing. But we found that despite this stronger qualifying indicators, Latinos have substantially lower approval rates than white-owned businesses when they're applying for loans that are higher than \$50,000.

Ramona Schindelheim, WorkingNation editor-in-chief:

So that's national banks. Do you see they're having to go to more community banks, smaller lending facilities to cover the loans that they're seeking?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Anecdotally, we know that some Latino-owned businesses actually have to recur to alternatives when they're denied loans from national banks. But we decided to do this analysis because the availability of national bank loans and their metrics are pretty consistent across the board. So this allows for a better comparison as opposed to analyzing smaller banks or CDFIs and so on.

Ramona Schindelheim, WorkingNation editor-in-chief:

Another finding that I see in there is that the Latino-owned businesses receive smaller contracts that take longer to secure from corporations and government. Again, I'd be interested in the numbers, but also the why on that too.

Bárbara Gómez, Ph.D., SLEI Associate Director:

Yeah. When we think about corporate and government contracts, the story is quite interesting. We know that contracts are crucial for decent number of businesses. In fact, when we think about the largest customer on earth, the US federal government is the largest buyer of good and services in the whole world. So securing government and corporate contracts is really important for businesses, both Latino and non-Latino-owned businesses. In fact, our research shows that almost one in every four Latino-owned businesses see government or corporate contracts as relevant for their business compared to less than one in every five white-owned businesses. So we see this importance of government and corporate contracts for Latinos as well as white-owned businesses.

And in fact, when we analyze who was able to secure government and corporate contracts in 2022, we see that Latinos were actually slightly more likely to secure government and corporate contracts than their white counterparts by a few percentage points, but it is statistically significant finding. However, when we dive deeper into the details of the contracts, of the nitty-gritty of who gets what, when, and how, that's when we start seeing the disparities that Latino-owned businesses face. For example, we found that in 2022, Latino-owned businesses received federal government contracts that were more than 30 times smaller than their white counterparts. And that trend is similar for state-level contracts.

On the other hand, also there's a disparity on the corporate contracts. It's a lot smaller because Latino-owned businesses were able to secure contracts that were three times smaller than the corporate contracts that white-owned businesses secure. But again, we see this consistent pattern of inequalities. In this case, we're talking about the size of government and corporate contracts that Latinos are able to secure. Unfortunately, it's not just the dollar amount that matters. When we think about business owners, time matters when you secure a contract, but we see that Latino-owned businesses are also seeing larger times to secure government and corporate contracts than their white counterparts. Our data reveals that when we think about securing government contracts and the time it takes, a little bit over a third of white-owned businesses are able to secure contracts from the government in less than six months. But on the other hand, about a third of Latinos are able to secure government and corporate contracts that take more than 12 months.

Ramona Schindelheim, WorkingNation editor-in-chief:

That time difference, I think what you said at the beginning of this is so important. So if it's 12 months, that's a year into your business, a year of lost business.

Bárbara Gómez, Ph.D., SLEI Associate Director:

A year of loss, a year of uncertainty, a year of waiting that can impact not only the contract that you get, but your entire businesses as well.

Ramona Schindelheim, WorkingNation editor-in-chief:

There's a lot of talk about the great resignation in the last year or so, people leaving jobs, people looking for other jobs. Did you do any study on retention, attracting employees, recruitment?

Bárbara Gómez, Ph.D., SLEI Associate Director:

Yeah. When we think about 2022, the great resignation was a big deal. Right now, we're dealing with a little bit of a different narrative with some companies laying off employees. But back in 2022, the great resignation was the topic. Our employees staying, our employees just moving around for whatever reason, but our companies having a hard time keeping them. We study this, and we actually found that

the great resignation from a business owner perspective was not as harsh as we probably thought throughout 2022. But we do see a pattern that in general, Latino-owned businesses report more moderate challenges in employee retention and recruitment than their white counterparts.

Ramona Schindelheim, WorkingNation editor-in-chief:

So the businesses that you look at, we established at the beginning, it was like businesses with at least one employee. Correct? So what is the makeup of the Latino-owned businesses in the country? Are they mostly small? Are they mostly medium-sized, mostly big? When we talk about it, I don't want to just lump all of them together. I'd love to know what industries we're talking about.

Bárbara Gómez, Ph.D., SLEI Associate Director:

Yeah, that's a very interesting question because when we think about businesses and the type of industries that they are in, there has been a stereotype of Latino-owned businesses belonging to certain industries. And in fact, our research last year showed that that is not necessarily the case. In fact, Latino and white-owned businesses, the distribution of their industries are pretty close to each other. Last year, we found that Latinos are actually likely, more likely to be in the tech industry than their white counterparts. When we think about Latino-owned businesses, we're talking about these businesses that are growing, but are also adapting to the new challenges and needs for the current world.

Ramona Schindelheim, WorkingNation editor-in-chief:

And do you have an age or gender distribution as well in the report? Do you know what the average age for an entrepreneur is in Latino-owned business, and whether they're male or female?

Bárbara Gómez, Ph.D., SLEI Associate Director:

That area we did not explore this year, but in general, we know that Latinos are substantially younger than whites residing in the United States.

Ramona Schindelheim, WorkingNation editor-in-chief:

What are Latino-owned businesses doing to retain and attract new and current employees?

Bárbara Gómez, Ph.D., SLEI Associate Director:

We see the pattern that Latinos are having a slightly harder time in retaining and recruiting new employees. But at the same time, we see that Latino-owned businesses are actually taking more actions to improve employee retention and recruitment than their white counterparts. And these items include increasing compensation or benefits, adding flexibility in work hours, dealing with the company culture in creating promotions in retirement benefits, for example. That finding was from 2022, but it is consistent with our research because in 2021, we found that Latino-owned businesses actually provide more benefits to their employees than their white counterparts.

Ramona Schindelheim, WorkingNation editor-in-chief:

This new report out has a lot of really good information in it. Who do you want to use it and what do you want them to take away from it?

Bárbara Gómez, Ph.D., SLEI Associate Director:

When we think about our report, we want to inform decision makers. And decision makers is not only elected officials, but it's also business owners themselves. It's also corporations who choose who to contract. We also want to inform of what is happening to financing institutions because we continue to see this pattern. So we want to create awareness of the challenges as well as the opportunities that Latino-owned business face in the United States.

When we think about Latino-owned businesses, we have to think about how they continue to exceed the growth rates of their white counterparts as well as businesses across all races and ethnicities in general in the United States. We also see that Latino-owned businesses are successfully recovering from the pandemic at a faster rate than their white counterparts. And actually in 2022, we saw that Latino-owned businesses were more likely to seek financing than their white counterparts. And they also have strong business metrics among national bank loan seekers. But they continue to endure important challenges as we discuss, including lower approval rates of loans that are over \$50,000 from national bank loans. And we also talk about the substantially smaller contracts that not only are smaller, but they also take longer to secure from corporations and governments.

Ramona Schindelheim, WorkingNation editor-in-chief:

Barbara, thank you very much for taking the time to tell me about the new report.

Bárbara Gómez, Ph.D., SLEI Associate Director:

My pleasure.

Ramona Schindelheim, WorkingNation editor-in-chief:

I've been speaking with Barbara Gomez, the Associate Director of the Stanford Latino Entrepreneurship Initiative, which just released its report on the 2022 State of Latino Entrepreneurship this morning. I'm Ramona Schindelheim, editor-in-chief of WorkingNation. Thank you all for listening.