



**2020**

**RESEARCH  
REPORT**

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# STATE OF LATINO ENTREPRENEURSHIP

**STANFORD**  
**BUSINESS**

GRADUATE  
SCHOOL OF

| Latino Entrepreneurship  
Initiative

PUBLICATION OF STANFORD GRADUATE SCHOOL OF BUSINESS | IN COLLABORATION WITH THE LATINO BUSINESS ACTION NETWORK

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## Contributors

### PRINCIPAL INVESTIGATORS

**MARLENE OROZCO** Lead Research Analyst  
Stanford Latino Entrepreneurship  
Initiative

**INARA SUNAN TAREQUE** Research Analyst  
Stanford Latino Entrepreneurship  
Initiative

### FACULTY

#### PAUL OYER

The Mary and Rankine Van Anda  
Entrepreneurial  
Professor, Professor of Economics,  
and Senior Associate Dean for  
Academic Affairs, 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 Cofounder, Latino Business Action  
Network (LBAN)

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# ABOUT THIS REPORT

DR. DIANA CANTO-SIMS  
COO, Buena Vista Optical

This is the sixth annual State of Latino Entrepreneurship report where we have collected robust survey data from Latino-owned businesses across the country to provide a timely account on the fastest growing segment of the U.S. business population. This year, we administered our national survey amid a global pandemic and vast social unrest, and the unique disruptions businesses faced over the past year are clearly visible in the survey responses.

This report highlights the impact of Latino-owned employer businesses in the U.S. economy and compares their experiences to those of White-owned employer firms in the United States. This year, we not only surveyed U.S. Latino business owners but also a comparison group of White business owners to identify similarities and differences in their experiences. We collected a sample of 3,500 White-owned businesses and 3,500+ Latino-owned businesses. Additionally, we captured time-series data from a smaller cohort of Latino-owned firms over the months of March, June, and September 2020, to capture the progressive impact of the pandemic on Latino-owned businesses. Additional methodological information related to sampling and measures can be found in [Appendix A](#).

Our current research focuses on employer firms, those with at least one paid employee other than the owner, as these businesses are poised to have the greatest impact on the economy and job creation (for a list of terms used in this report, refer to [Appendix B](#)). This focus on employer firms aligns with the approach taken by the U.S. Census Bureau in their Annual Business Survey, which we rely on for statistical purposes to make our sample as nationally representative as possible.

The 2020 State of Latino Entrepreneurship report provides organizations focused on supporting businesses (e.g., chambers of commerce, trade associations, economic development associations, etc.), think tanks, policymakers, and corporations with insights into the business outcomes of Latino-owned businesses to inform data-driven policy and programs. Additionally, we hope Latino business owners leverage these data to inform their business decision-making and operations. We acknowledge that business owners are operating in largely uncertain and unprecedented times, and we would like to thank those who contributed their data to ensure that the stakeholders listed above can work together to reshape and rebuild the U.S. economy.

A portrait of Javier R. Lucatero, President of Accurate Firestop, Inc., is shown in the top right corner of the page. He is a middle-aged man with short hair and a goatee, wearing a dark blue shirt. The background is dark and out of focus.

# SECTION I EXECUTIVE SUMMARY

**JAVIER R. LUCATEO**  
President, Accurate Firestop, Inc

Latino-owned businesses play an important role in the U.S. economy. As the fastest growing segment of the U.S. small business ecosystem, the number of Latino-owned businesses has grown 34% over the last 10 years compared to just 1% for all other small businesses.<sup>1</sup> Were it not for the growth in the number of Latino-owned firms, the total number of small businesses in the U.S. would actually have declined between 2007 and 2012.<sup>2</sup> We highlight below key findings from this report that depict pre-pandemic trends among Latino-owned businesses and areas of additional focus heightened by the pandemic. *All data reported henceforth are for Latino-owned employer businesses (LOBs) and White-owned employer businesses (WOBs), unless stated otherwise.*

### **Latinos are starting businesses at a faster rate than the national average across almost all industries.**

The number of employer LOBs has grown by 14% between 2012 to 2017, over twice the U.S. average of 6%.<sup>3</sup> Additionally, the number of employer LOBs grew across 44 out of 50 U.S. states, and grew at a faster rate than the national industry average across 13 of the 15 industry sectors that include a substantial number (over 1,000) of employer LOBs. Among these industries, the growth rate is highest in the following industries: 1) Construction, 2) Finance and Insurance, 3) Transportation and Warehousing, 4) Real Estate.

### **Latino-owned employer businesses are growing revenues at a faster rate than White-owned employer businesses.**

Over the past two years, Latino-owned firms grew revenues an average of 25% per year while WOB revenue grew at 19%.

### **Latino-owned employer businesses are significantly less likely than White-owned employer businesses to have loan applications approved by national banks, despite reporting strong metrics on a variety of key lending criteria.**

Only 20% of LOBs that applied for national bank loans over \$100,000 obtained funding, compared to 50% of WOBs. Considering only scaled firms (annual revenues greater than \$1 million) requesting a similar size loan, only 29% of Latino-owned businesses were approved, compared to 76% for WOBs. If loans of all sizes are considered, 51% of LOBs were approved for all or most of their loans requested from national banks, compared to 77% of WOBs. Importantly, after controlling for business performance measures, the odds of loan approval from national banks are 60% lower for Latinos. We explore business performance measures below:

- **Credit:** Latinos who own employer businesses are no more likely to have high credit risk than their White counterparts. Additionally, when considering credit performance, among the most credit vulnerable business owners (e.g., undocumented and microbusiness owners) the default rates are no higher than those among non-Latinos.<sup>4</sup>

- **Profitability:** While WOBs are more likely to operate profitably than LOBs, three quarters of all LOBs report breaking even or generating profit in the last 12 months — a similar rate relative to WOBs. This is despite the impact of the coronavirus generating greater losses than in previous years.
- **Liquidity:** LOBs and WOBs report comparable liquidity with 52% of LOBs and 55% of WOBs reporting they have ample liquidity to operate without the need for credit.
- **Business age:** Given the recent booming growth in the number of Latino-owned businesses, it follows that LOBs are younger than WOBs. On average, LOBs are 10 years old while WOBs are 14 years old. The median age for both is 12 years.

**Scaled Latino-owned employer businesses are more likely to seek and receive funding from sources that expose them to more personal financial risk compared to White-owned employer businesses.**

After accounting for application rates, our survey data show that the top sources of funding (over \$100,000) with the highest approval rates for scaled LOBs include: 1) Personal or business lines of credit (51%),<sup>i</sup> 2) Personal/family savings (43%), 3) Business credit card(s) (40%), 4) Personal/family home equity loan (37%). On the other hand, the top sources for scaled WOBs include: 1) Business loans from national banks (76%), 2) Business loans from local or community banks (45%), 3) Private equity (36%), 4) Personal/family home equity loan (34%).

**Latino-owned employer businesses that participate in formal business organizations (e.g., chambers of commerce and trade associations) are more likely to experience funding success.**

LOBs that leverage formal business organizational networks are more than twice as likely to experience funding success as those that did not engage in any networking activities (63% versus 28%). Our data show that businesses that leverage organizational and personal networks are more likely to come in contact with capital providers, which may provide opportunities to build the relationships needed to facilitate funding requests.

**For both Latino and White-owned businesses, those led by women are most negatively impacted by the pandemic.**

Twice as many Latina-led companies experienced closure compared to Latino-led businesses (30% versus 16%). Layoffs were also higher for Latina-led companies (17% versus 12%). This gender gap holds among WOBs as well. The difference in industry distribution by gender does not fully explain the gap in business closure by industry. We see some differences in having cash on hand. Only about 1 in 10 Latina-owned businesses have enough cash on hand to survive beyond 6 months compared to 2 in 10 Latino-owned businesses. This gap is less pronounced for WOBs. In addition, working from home is also more challenging for Latina-led businesses. Only 20% report that the majority of their employees can work remotely, compared to 34% of Latino-led and 48% of White-male-led companies.

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<sup>i</sup> This means that of all scaled employer LOBs that applied for funding from personal or business lines of credit, 51% were approved for amounts of over \$100,000.



# SECTION II INTRODUCTION

EDWIN SANCHEZ  
CEO, Echez Group

The number of Latino business owners has grown 34% over the last 10 years compared to just 1% for all others, making LOBs the fastest growing segment of the small business ecosystem.<sup>5</sup> Additionally, the number of Latino-owned employer businesses, or those that have at least one employee on payroll other than the owner, has grown by 14% between 2012 to 2017, over twice the U.S. average of 6%.<sup>6</sup> In pre-pandemic times, the roughly 400,000 Latino-owned employer businesses generated nearly \$500 billion in annual revenue and employed 3.4 million people.<sup>7</sup> In this report, we focus on Latino-owned employer businesses (LOBs) as both job creators and as an important path forward in economic recovery.<sup>ii</sup>

## THE NEW LATINO ENTREPRENEUR

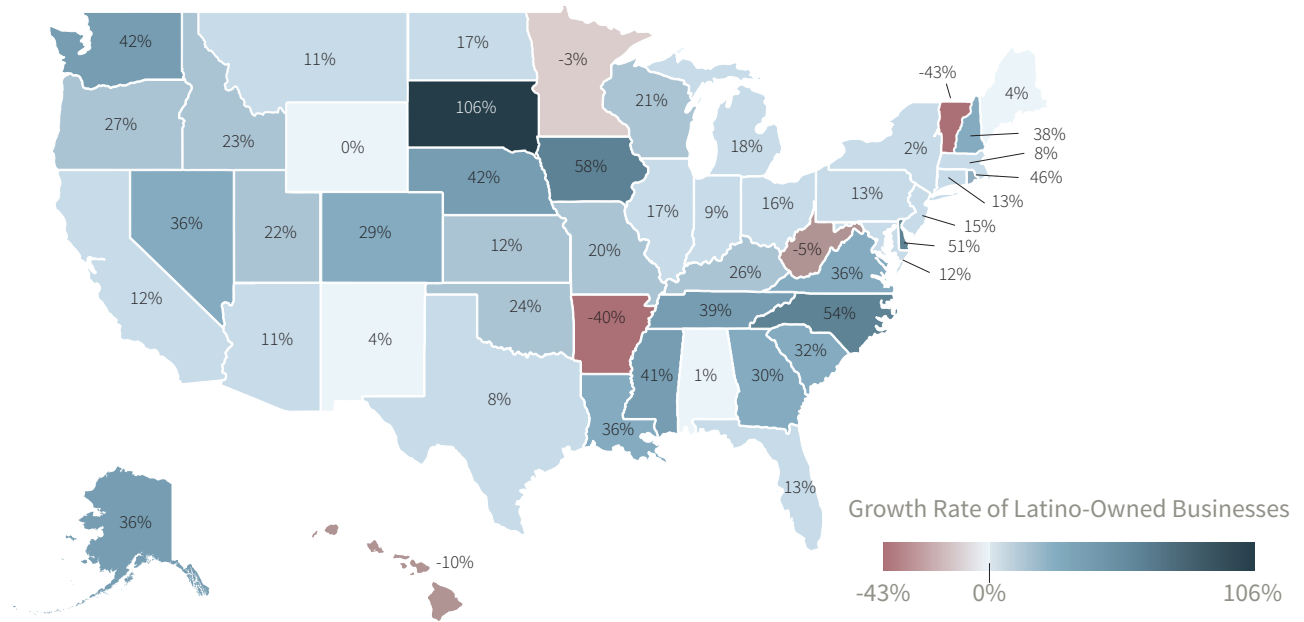
Our data over the years have expanded the narrative on the average profile of all Latino business owners: they are more

highly educated than the general U.S. Latino population, have higher homeownership rates relative to their wage-working counterparts, and in general, generate greater personal income, representing a path to upward mobility and community wealth.<sup>8</sup> LOBs are located across all 50 states including in new gateways outside of historical Latino enclaves.<sup>9</sup> As shown in **Figure 1**, the number of LOBs grew in 45 out of 50 U.S. states (and the District of Columbia).<sup>10</sup> The growth rate in the number of Latino-owned businesses was higher than the U.S. national average growth rate for all employer businesses in 41 states. Latinos are increasingly starting and growing businesses to be employer businesses. Crossing this “employment threshold” is a significant barrier on the path toward scaling,<sup>11</sup> or generating more than \$1 million in annual revenue, and Latinos are making important gains in a positive direction.

**The growth rate in the number of Latino-owned employer businesses was higher than the U.S. national average growth rate for all employer businesses in 41 states.**

ii All data reported in this report are for Latino-owned employer businesses (LOBs) and White-owned employer businesses (WOBs), unless specified otherwise.

Figure 1  
**Growth Rate in Number of Latino-Owned Employer Businesses by State (2012 to 2017)**



SOURCE: U.S. Census Bureau's 2018 Annual Business Survey and 2012 Survey of Business Owners

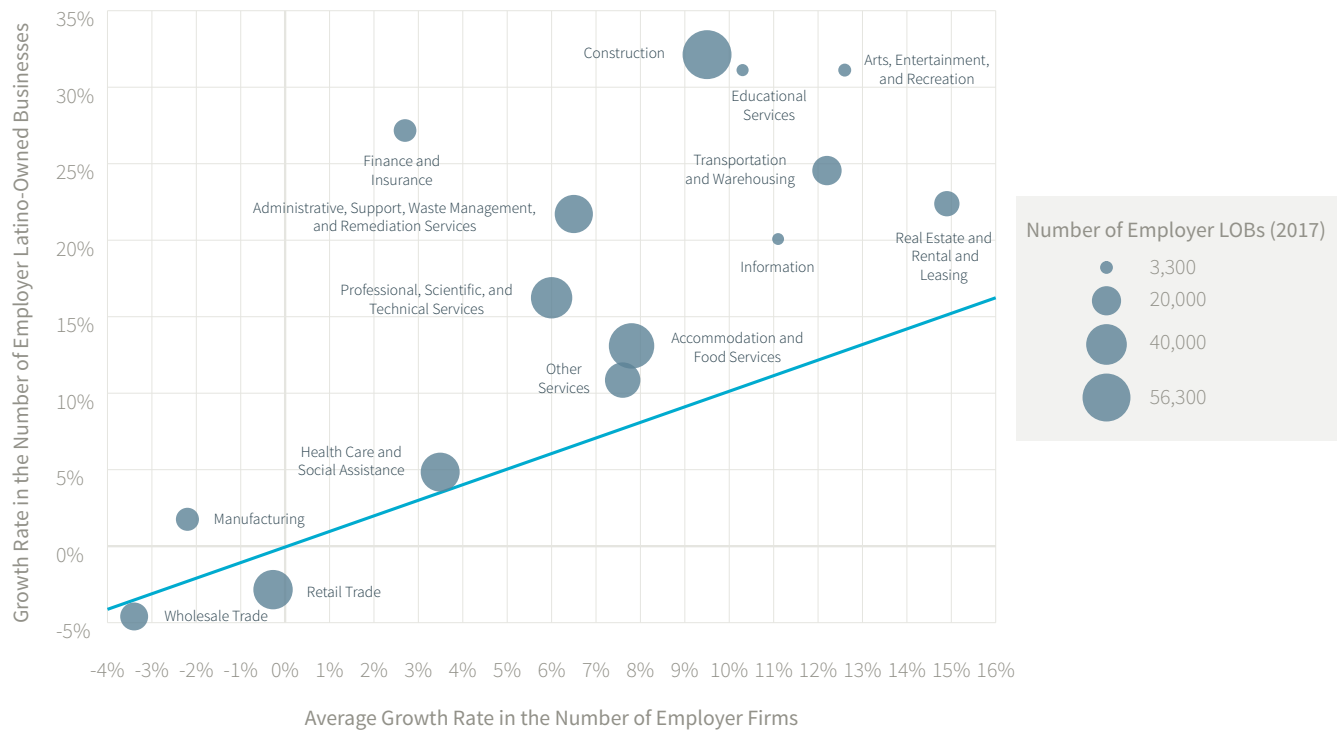
**FAST GROWTH IN NUMBER OF LATINO-OWNED BUSINESSES ACROSS VIRTUALLY ALL INDUSTRIES**

Latinos are starting businesses across all industries. While there remain significant clusters in the service industry among non-employer businesses, employer businesses are seeing the highest growth in non-service sectors. The number of LOBs grew most rapidly in the following industries between 2012 and 2017:<sup>12</sup>

Virtually all industries have seen growth in the number of LOBs, and most have seen the number of LOBs grow faster than the average, as highlighted by the number of industries above the blue line in **Figure 2**.

- 1. Construction 32% ↑
- 2. Finance and Insurance 27% ↑
- 3. Transportation and Warehousing 25% ↑
- 4. Real Estate 22% ↑
- 5. Administrative Support and Waste Management Service 22% ↑

Figure 2  
**Growth in the Number of Latino-Owned Employer Businesses by Industry, Compared to the Average Industry Growth Rate (2012 to 2017)**



SOURCE: U.S. Census Bureau's 2018 Annual Business Survey and 2012 Survey of Business Owners

### OPPORTUNITY GAPS AND BUSINESS OUTCOMES

By many measures, LOBs were moving in a positive direction before the pandemic. However, an important reality persisted: Latino-owned businesses overall tend to start small and remain small. If we consider all Latino-owned businesses, employer and non-employer alike, there is at least a \$1.5 trillion opportunity gap if Latino-owned businesses generated, on average, the same annual revenues that their non-Latino counterparts generate.<sup>iii 13</sup> This gap in revenue can be attributed to a variety of factors, including business location. However, with the creation of opportunity zones in 2017, we have found that Latino-owned businesses

overall have a higher average annual revenue growth compared to those not in opportunity zones, 24% and 13% respectively.<sup>14</sup> Other important factors likely contributing to this revenue gap include the fact that Latinos have only one-eighth the wealth of White households,<sup>15</sup> and personal savings and that of family and friends are the primary ways that most start businesses. Additionally, accessing capital has been an important barrier to growth (see Section III).

iii This estimate was calculated using U.S. Census Bureau's 2012 Survey of Business Owners data, adjusted for inflation. However, we estimate that since 2012, the number of all Latino-owned businesses has increased by nearly 1.5 million. As such, the current opportunity gap might be much larger than this conservative estimate of \$1.5 trillion when we account for the growth in the number of all Latino-owned businesses.

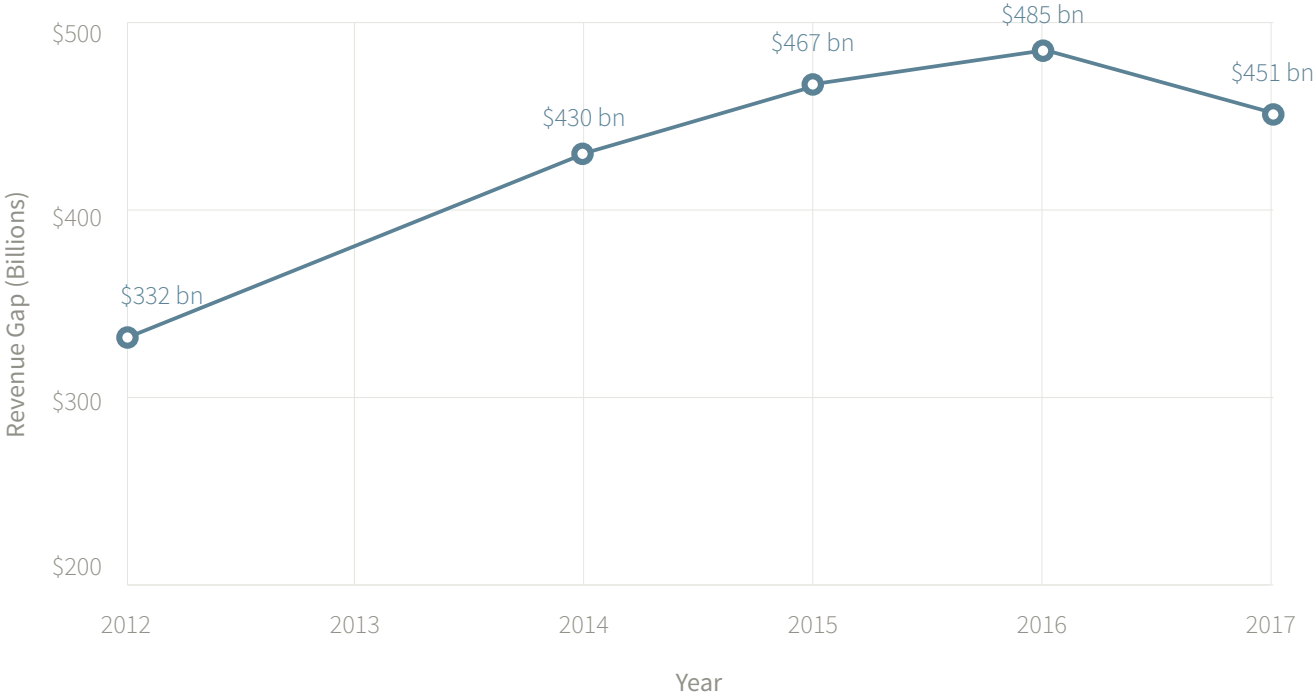


If we consider all Latino-owned businesses, employer and non-employer alike, there is at least a \$1.5 trillion opportunity gap if Latino-owned businesses generated, on average, the same annual revenues that their non-Latino counterparts generate.

Figure 3 shows the opportunity gap in revenue over time among employer businesses only. While the gap in the average revenue generated by LOBs relative to WOBS had

been steadily growing since 2012, in 2017 we saw a reversal with an opportunity gap of \$451 billion as the average revenue of LOBs grew from \$1.2 to \$1.3 million.<sup>16</sup>

Figure 3  
**Revenue Gap Among Latino-Owned Employer Businesses Relative to White-Owned Employer Businesses**



SOURCE: U.S. Census Bureau's 2018 Annual Business Survey, 2014-2016 Annual Survey of Entrepreneurs, and 2012 Survey of Business Owners

A man in a grey suit is sitting in front of a large array of solar panels. The background shows a residential area with trees and a house.

# SECTION III FINANCING

JONATHAN DINETTE GARCIA  
CEO, Simmitri Solar

Previous SLEI Research studies have shown the importance of securing external capital to ensure continual growth.<sup>17</sup> In this section, we explore the business characteristics that are commonly leveraged by capital providers to inform their decisions on funding, including revenue growth, profitability, and credit history. After accounting for application rates, we show that while LOBs are comparable to WOBs on many key business performance metrics, Latinos are accessing funding from high-interest, high-risk sources. In particular, we find significant challenges for LOBs when they try to access funding from national banks even after accounting for business characteristics. As this section will show, Latinos are outpacing their White counterparts in revenue growth, and have comparable credit risk, and yet have financing challenges still persist.

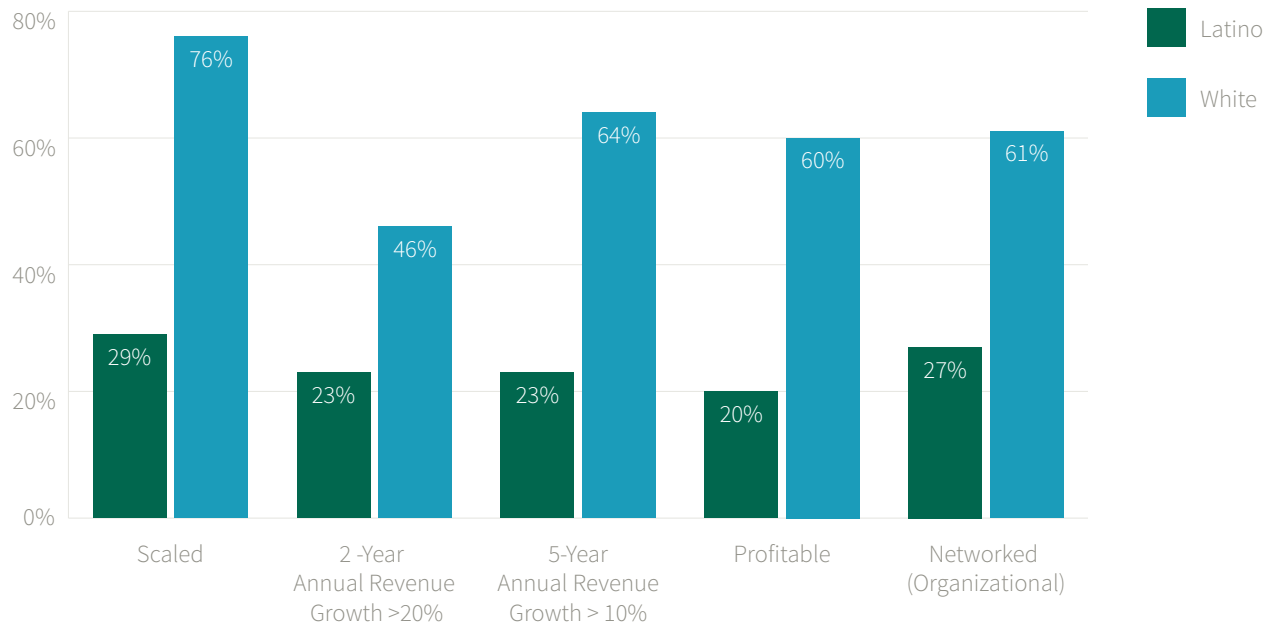
## NATIONAL BANKS STATISTICALLY LESS LIKELY TO FINANCE LATINOS

When we consider the different financing sources requested by LOBs and WOBs, the largest gaps in financing come from loans disbursed by national banks. We find that White-owned employer businesses are more likely than Latino-owned businesses to get their funding needs met from national banks across all categories correlated to positive funding outcomes such as revenue size (i.e., scaled), revenue growth, and profitability (**Figure 4**). That is, even if we limit our analysis to scaled, high-growth, profitable, and networked businesses, WOBs are significantly more likely to have their funding requests of over \$100,000 approved. Additionally, our logistic regression analysis shows that even after controlling for the revenue size of the company, profitability, and credit scores, Latinos are statistically significantly less likely to get their funding approved by national banks.<sup>iv</sup> The odds of loan approval from national banks are 60% lower for LOBs, when controlling for business performance.

**The odds of loan approval from national banks are 60% lower for LOBs, when controlling for business performance.**

<sup>iv</sup> Being Latino decreases the log-odds of being approved for a national bank loan. This relationship holds even after controlling for revenue size, profitability, credit scores, loan size, gender, and revenue growth in different models. Region and industry are folded into the analysis through weighting methodology. See methodology for more details.

Figure 4  
**Percent of Employer Businesses Whose Large Funding (Over \$100,000) Needs Were Met by National Banks**



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

**LATINO-OWNED BUSINESSES OUTPACING WHITE-OWNED BUSINESSES IN RECENT REVENUE GROWTH**

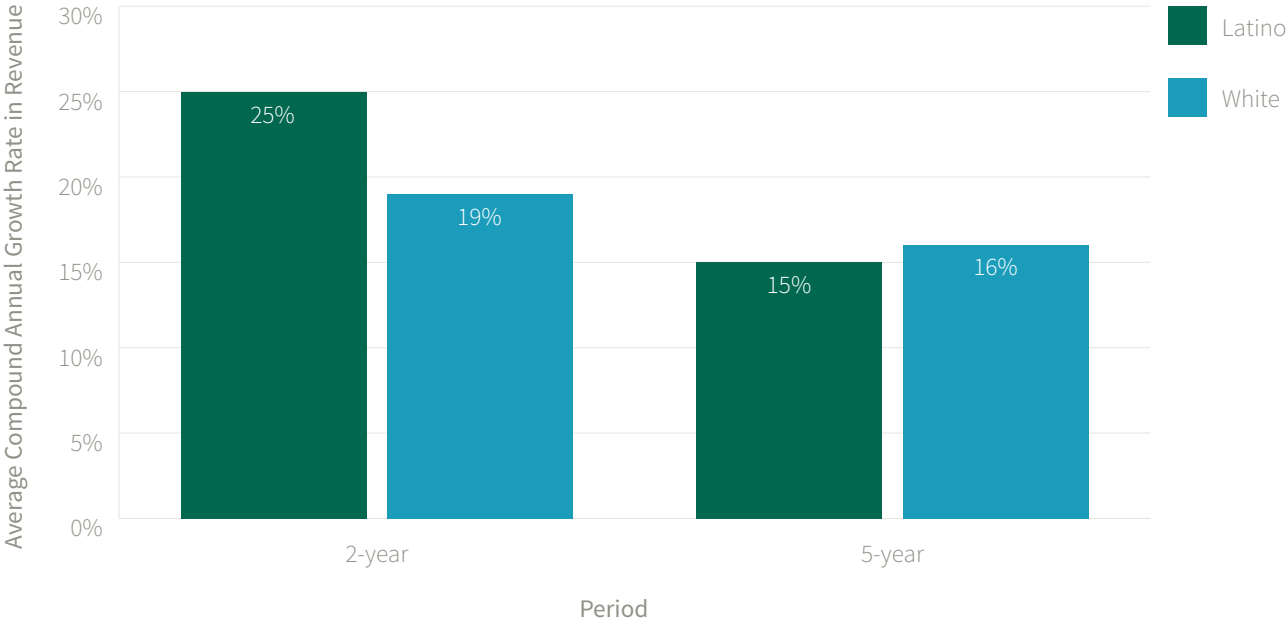
According to the latest census data, the average annual revenue of LOBs is \$1.3 million while the average for WOBs is \$2.5 million.<sup>18</sup> However, LOBs are catching up. Revenue growth year after year is one sign of a loan-worthy business. Indeed, lenders often ask for business financials that include revenue trajectory. As shown in **Figure 5**, over the past two years, LOBs have grown their revenue at a compound annual growth rate (CAGR) of 25% compared to 19% for WOBs, a

statistically significant difference between the two groups.<sup>v</sup> When we consider revenue growth over a 5-year span, we see no difference between the two groups. As such, their revenue growth in the next couple of years will be important to track to measure recovery and return to pre-COVID-19 trends. We note here that LOBs are younger than WOBs, on average, 10 years compared to 14 years old respectively, thus a recency effect may be contributing to revenue growth.

<sup>v</sup> See methodology for more details.

Over the past two years, Latino-owned employer businesses have grown their revenue at a compound growth rate of 25% compared to 19% for WOBs, a statistically significant difference between the two groups.

Figure 5  
Compound Annual Revenue Growth Rate of Latino- and White-Owned Employer Businesses



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

**THREE-QUARTERS OF LATINO-OWNED BUSINESSES REPORT BREAKING EVEN OR GENERATING PROFIT**

Although Latino-owned firms are less likely to generate a profit relative to WOBs, three-quarters of LOBs operated profitably or broke even over the past year, despite the challenges of the early months of the COVID-19 pandemic. While many capital providers use detailed metrics such as EBITDA (earnings before interest, taxes, depreciation, and amortization) to evaluate profitability, our survey captures a simplified measure asking businesses to report if they earned profits, broke even, or incurred losses. Obtaining more nuanced financial information

has been a barrier to survey completion in the past. As a result, we proxy profitability through the three measures captured in **Figure 6** — profits, break even, losses. Our survey data show similar proportions of Latino- and White-owned businesses operating at a loss (15% and 23%, respectively, not being statistically significantly different). Although LOBs are less likely to operate profitable businesses, we find lower rates of funding approval for LOBs versus WOBs even when holding constant the profitability or loss status of the firm.

# Three quarters of LOBs operated profitably or broke even over the last year.

Figure 6  
Latino- and White-Owned Employer Business Profitability in the Past Year



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

### COMPARABLE CREDIT PERFORMANCE AND RISK

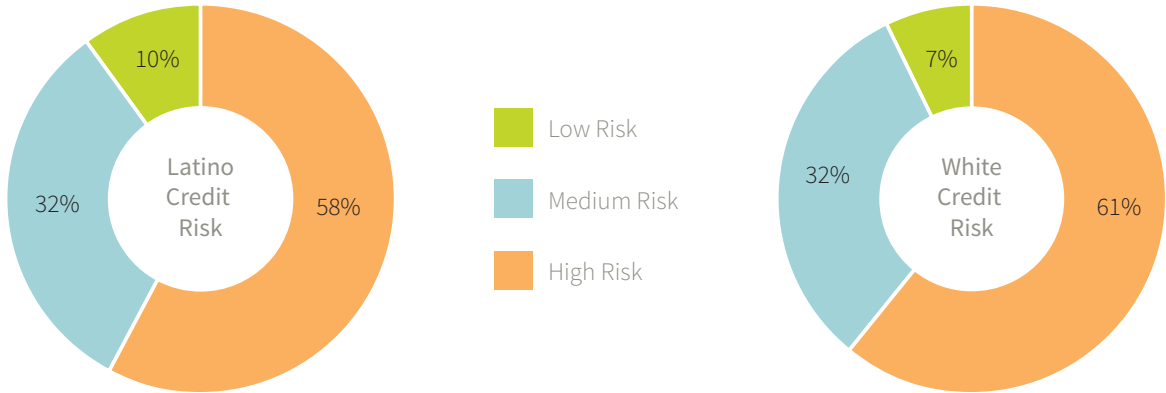
For many small business owners, leveraging their own personal credit and collateral is often the direct path toward accessing capital. However, businesses can obtain credit scores, too. Just like personal credit scores provide information about credit performance, business scores indicate the credit risk of a business. External research has shown that three out of four small business owners do not know their business credit scores, but building business credit and understanding how to use it leads to a greater likelihood of being approved for a business loan.<sup>19</sup> Our research finds that only one-third of Latino-owned employer and scaled firms use a business score to access capital,

which means that even firms with proven track records and growth continue to rely on the owner’s personal credit score when seeking funding.<sup>20</sup>

In this study, we created a measure of credit risk using the self-reported personal credit score ranges from the Latino and White business owners in the sample. We ranked personal credit scores from low credit risk (scores above 720) to high credit risk (scores below 620). Latino owners of employer businesses are no more likely to have high credit risk than their White counterparts, as shown in **Figure 7** where data for LOBs and WOBs have no statistically significant differences.

# Latino owners of employer businesses are no more likely to have high credit risk than their White counterparts.

Figure 7  
Credit Risk among Latino and White Employer Business Owners



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

Credit can be a challenge for immigrants who might lack long-standing credit history in the United States or are unable to obtain credit as a result of being undocumented.<sup>vi</sup> In our study, 35% of LOBs are immigrant-owned and on the whole, immigrants are more likely to start their own businesses, regardless of race or ethnicity.<sup>21</sup> Camino Financial, a private lender that largely services undocumented and microbusiness owners, finds that even among the most credit vulnerable business owners, the default rates are comparable to those among non-Latinos.<sup>22</sup>

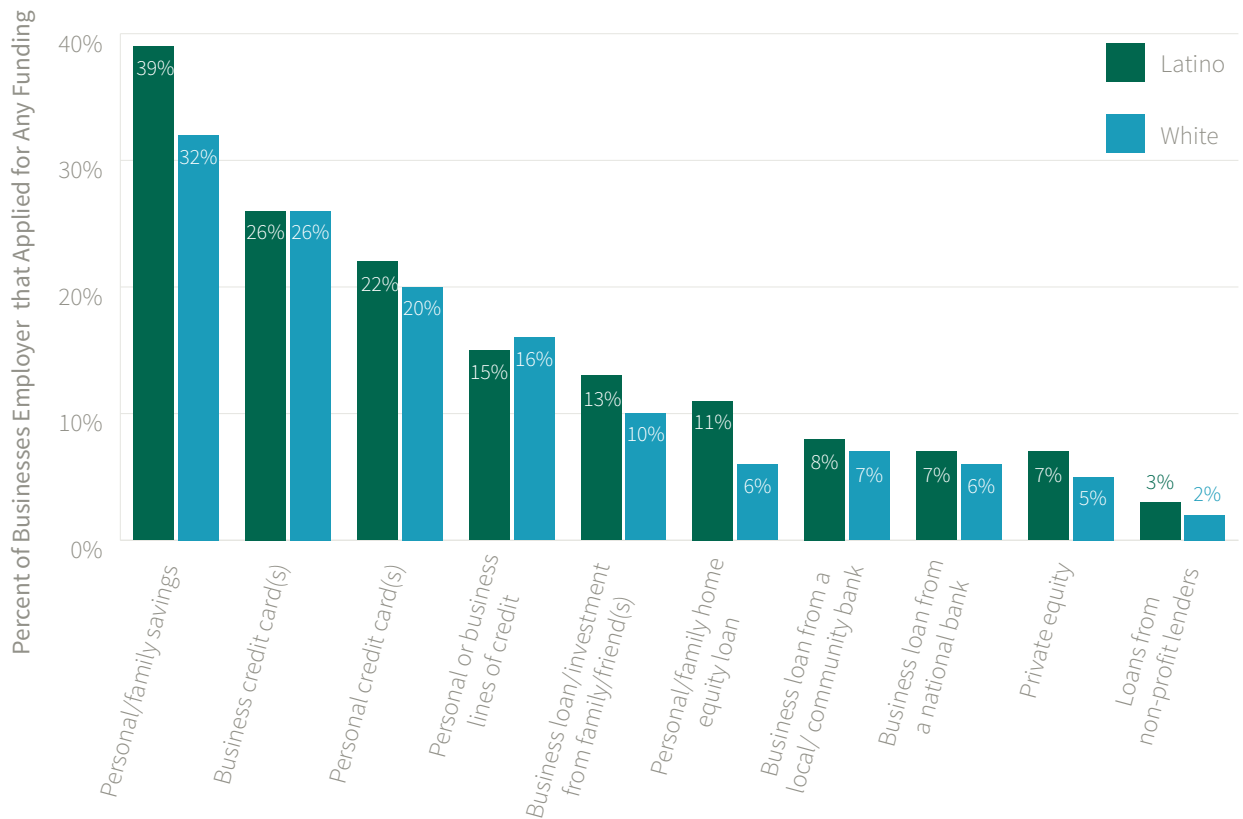
**LARGE DIFFERENCES IN FUNDING APPROVAL RATES DESPITE COMPARABLE BUSINESS PERFORMANCE**

Latino and White-owned employer businesses apply for various types of funding at comparable rates (Figure 8).

However, despite having greater revenue growth and comparable credit performance, large gaps emerge when we look at approval rates for amounts of over \$100,000 in funding. Through mystery shopper or audit studies, researchers have found that minority entrepreneurs experience unequal treatment and differences in the loan products they are shown.<sup>23</sup> Most recently, these studies have confirmed lending discrimination within the Paycheck Protection Program, with statistically significant disparities between Black and White applicants in terms of encouragement to apply, products offered, and information provided by the bank.<sup>24</sup> Historically, banks have been the primary capital provider for small businesses. While redlining practices among mortgage lenders have been regulated, there are limited financial regulations and protections for small business lending.<sup>25</sup>

vi There are organizations that support the building of credit for undocumented businesses owners, like Mission Asset Fund. Learn more: <https://missionassetfund.org>

Figure 8  
Funding Sources Applied to by Latino and White-Owned Employer Businesses



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

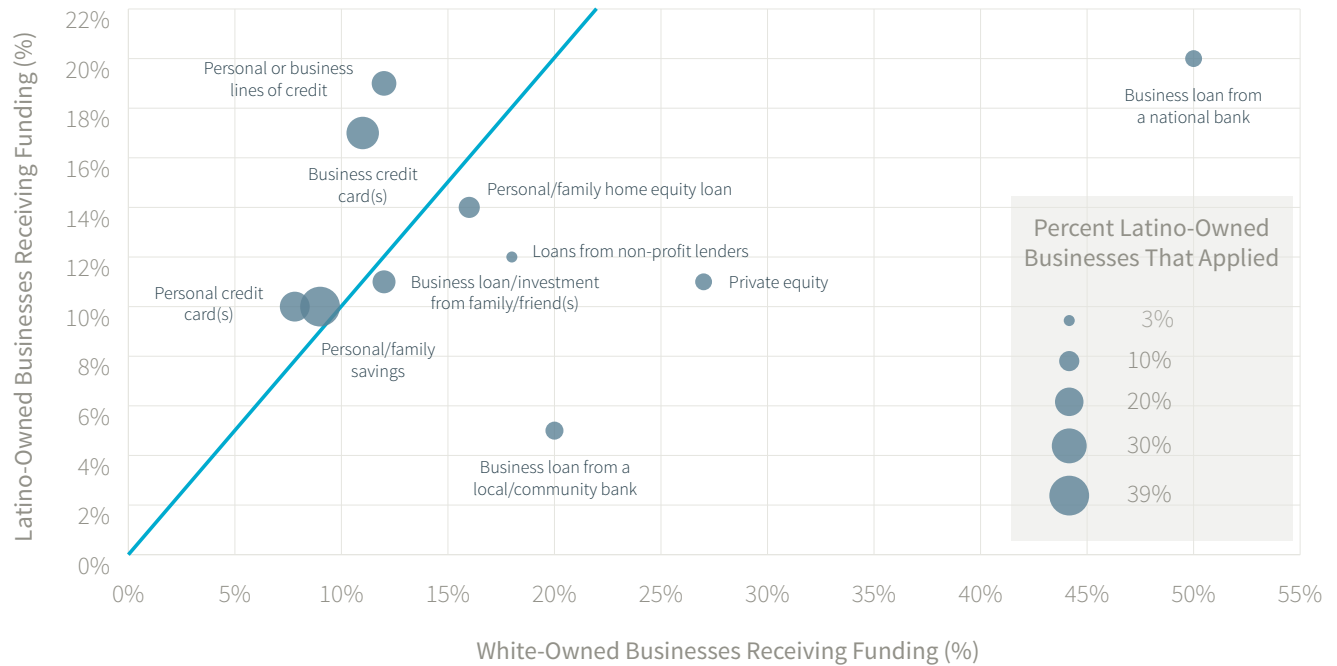
After accounting for application rates, our survey data show large differences in types of funding and approval rates between LOBs and WOBs. <sup>vii</sup> **Figure 9** shows the distribution for the types of funding requested and secured for amounts larger than \$100,000. The size of the circle corresponds to the percent of LOBs that applied for any given type of funding. The funding types above the blue

45-degree line indicates that Latinos are more likely to secure this type of funding, whereas White business owners are more successful with the funding types shown below the blue line. For instance, **Figure 9** shows that of the LOBs and WOBs that applied for funding from national banks, only 20% of LOBs (x-axis) received over \$100,000 in funding compared to 50% of WOBs (y-axis).

**Of the businesses that applied for funding from national banks, only 20% of LOBs received over \$100,000 in funding compared to 50% of WOBs.**

vii For each source of funding, we consider only the businesses that applied for that particular type of funding to calculate approval rates.

**Figure 9**  
**Sources of Funding Received for Latino- and White-Owned Employer Businesses (Over \$100,000)**



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

**HIGHER PERSONAL RISK FINANCING SOURCES FOR SCALED LATINO-OWNED EMPLOYER BUSINESS**

Even scaled LOBs are less likely than scaled WOBS to be approved for national bank loans, and they have a greater reliance on higher personal risk funding sources. Scaled LOBs experience the highest approval rates securing large funding amounts (>\$100,000) from the following sources:

1. Personal or business lines of credit<sup>viii</sup> (51%);
2. Personal/family savings (43%);
3. Business credit card(s) (40%);
4. Personal/family home equity loan (37%).

The top sources of funding of over \$100,000 for scaled WOBS include:

1. Business loans from national banks (76%);
2. Business loans from local or community banks (45%);
3. Private equity (36%);
4. Personal/family home equity loan (34%).

Latino business owners are taking on more personal financial risk to operate and grow their firms relative to White business owners, who rely more on financing options that do not entail the use of personal assets for collateral.

<sup>viii</sup> This means that of all scaled LOBs that applied for funding from personal or business lines of credit, 51% were approved for amounts of over \$100,000.





# SECTION IV ONGOING IMPACT OF COVID-19

MARIA FERNANDA REYES  
Founder and  
President,  
Adoptahero

On March 19, 2020, California Governor Newsom issued a statewide stay-at-home order, the first statewide mandatory restriction in the United States, to help combat the coronavirus outbreak. As the nation's most populated state, California is also home to roughly one-fourth of all Latino-owned businesses in the country. COVID-related restrictions had a significant impact on the 83,613 LOBs in California and those across the country.<sup>26</sup> As the course of the pandemic heightened, New York soon had more coronavirus cases than any country in the month of April.<sup>27</sup> New York is home to the fourth largest share of LOBs in the country after California, Florida, and Texas.<sup>28</sup> We administered our first of three brief surveys at the end of March, tracking the national impact of COVID-19 on all Latino-owned businesses as the pandemic surged.

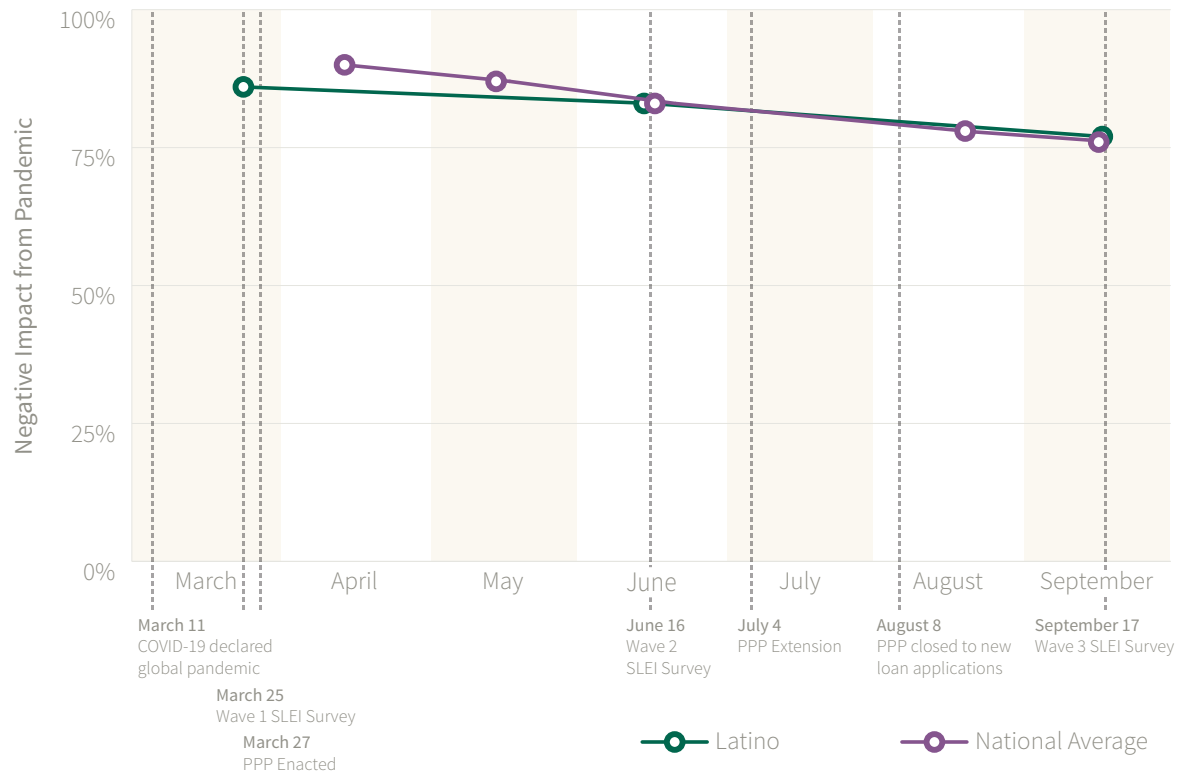
Our timely surveys have gauged the large and immediately negative impact of the pandemic before any relief aid was administered by Congress,<sup>29</sup> the statistically significant disparities between White and Latino business owners

obtaining funding from the Paycheck Protection Program (PPP),<sup>30</sup> and the waiting period on federal guidance for reopening and additional relief aid. In this section, we highlight the impact of the pandemic over time (March, June, and September 2020) for LOBs and specific areas of focus for the ongoing recovery efforts.

## IMPACT OF THE PANDEMIC LARGELY NEGATIVE AND ENDURING FOR LATINO-OWNED BUSINESSES

The initial impact of the pandemic as a result of stay-at-home ordinances and other local measures had both a large and immediately negative impact on all Latino-owned businesses. At the end of March, 86% of all Latino-owned businesses reported large negative effects.<sup>31</sup> A month later, the U.S. Census Bureau began collecting weekly data tracking changes during the coronavirus pandemic through the Small Business Pulse Survey.<sup>32</sup> **Figure 10** displays the impact of COVID-19 on both LOBs and the national average among employer businesses as captured by the U.S. Census.

Figure 10  
**Reported Impact of COVID-19 on Employer Businesses Over Time** <sup>ix</sup>



SOURCE: U.S. Census Pulse Survey and March, June, and September SLEI Pulse Surveys

The trend line among Latinos and the national average shows a similar pattern of high negative impact in March and April, and only slightly diminishing over time. Importantly, the negative effects of the pandemic appear to be enduring over a 6-month span, despite the multi-billion-dollar federal program to provide relief aid to small businesses. It should be noted that the PPP was meant to keep employees on payroll to avoid massive unemployment, but it was not a loss-of-revenue loan. While the negative impacts between Latino and White employer businesses were universally experienced through September 2020, LOBs may face greater challenges in weathering the pandemic due to less access to relief loans<sup>33</sup> and a higher proportion of businesses in industries particularly affected by the pandemic (e.g., accommodation and food services and other services - see **Figure 11**).<sup>34</sup>

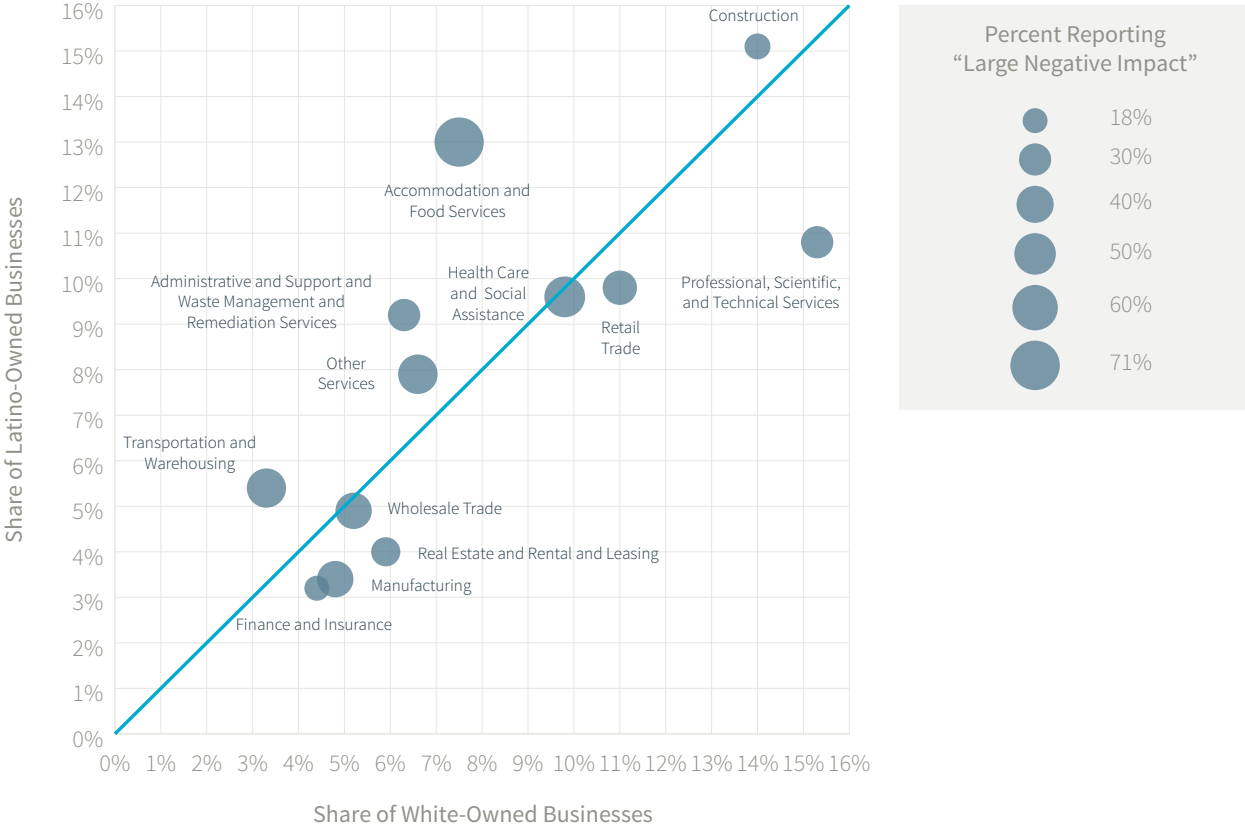
### LATINOS WELL REPRESENTED IN RESTAURANT INDUSTRY, WHICH HAS BEEN HARD HIT

With social distancing protocols in place and a limit on indoor gatherings, the restaurant industry has been among the hardest hit by the pandemic. At the height of the pandemic, 71% of restaurants were reporting large negative impacts,<sup>35</sup> and as shown in **Figure 11**, this industry indexes high in Latino business ownership. Many had to close altogether and, according to Yelp’s Local Economic Report, temporary closures become permanent closures particularly within the restaurant industry.<sup>36</sup> In April, the number of active Latino business owners across all industries fell by 32%<sup>37</sup> and by June, one in four LOBs experienced closure.<sup>38</sup>

<sup>ix</sup> “Negative” impacts include respondents that have indicated “moderate negative effects” and “large negative effects.”

# The negative effects of the pandemic appear to be enduring over a 6-month span, despite the multi-billion-dollar federal program to provide relief aid to small businesses.

Figure 11  
**Negative Industry Impacts Across Share of White- and Latino-Owned Employer Businesses**



SOURCE: U.S. Census Pulse Survey (June 20-27) and 2018 Annual Business Survey

## PANDEMIC DISPROPORTIONATELY IMPACTING WOMEN, AND LATINAS MORE SPECIFICALLY

Much of the growth in the number of new businesses among Latinos has been driven by women. Latinas represent 40% of all Latino business owners and the number of Latina-led employer firms has grown 20% within the last five-year period of data available.<sup>39</sup> As part of the gender wage gap, Latinas earn 54 cents on the dollar relative to White non-Latino men, trailing women of all other racial and ethnic

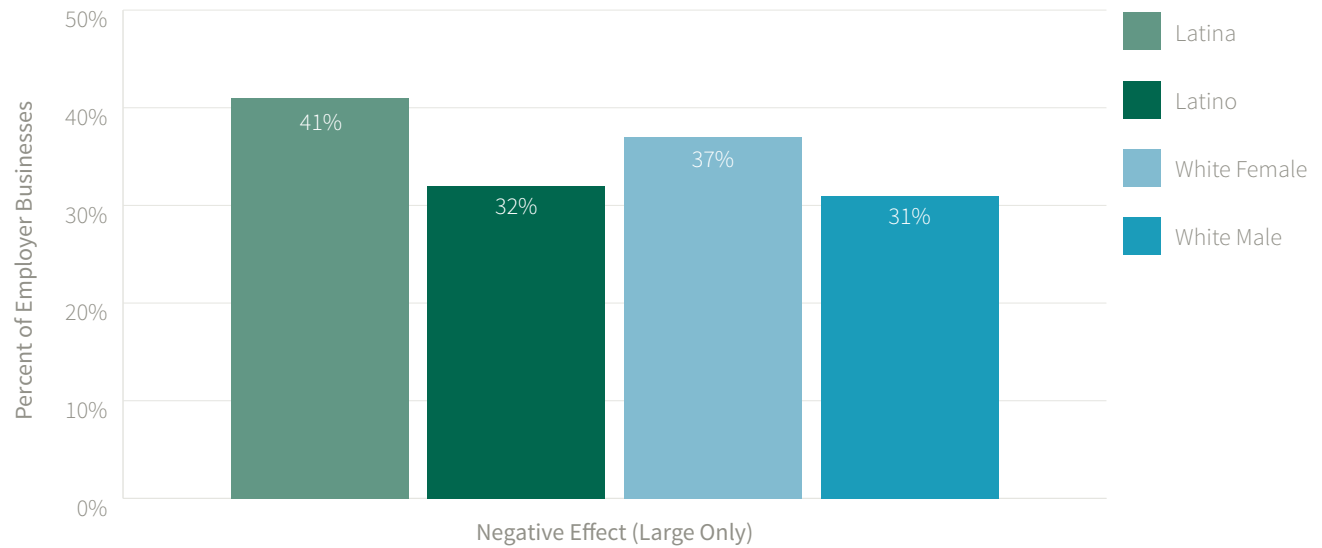
backgrounds,<sup>40</sup> which might be one of the driving factors leading to Latinas exiting the formal labor market to start their own businesses.

For women entrepreneurs, the pandemic has also disproportionately impacted their businesses. **Figure 12** shows the distribution of men and women reporting “large

negative impacts” as a result of the pandemic with 41% of Latinas reporting being impacted to this degree. Latinas

running employer businesses are the most negatively impacted group followed by White women.

Figure 12  
“Large” Negative Reported Impact of Pandemic by Gender and Race/Ethnicity

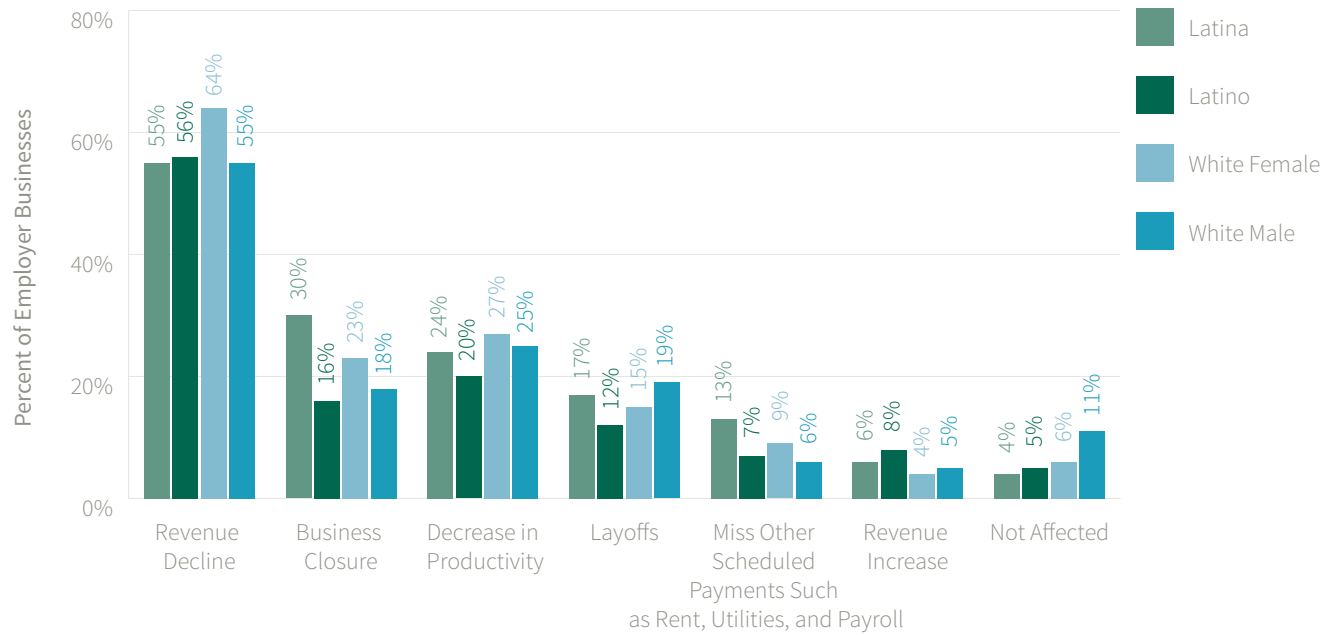


SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

Additionally, the negative operational impacts have hit Latina-led businesses hard. As shown in **Figure 13**, twice as many Latina-led companies experienced closure compared to Latino-led businesses (30% versus 16%). Latinas also

missed scheduled payments such as rent, utilities, and payroll at twice the rate (13% versus 7%). Taken together, this might take Latinas longer to recover.

Figure 13  
Operational Impacts of Pandemic Across Gender and Race/Ethnicity



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

### ACCESS TO RELIEF AID AND DEBT FORGIVENESS

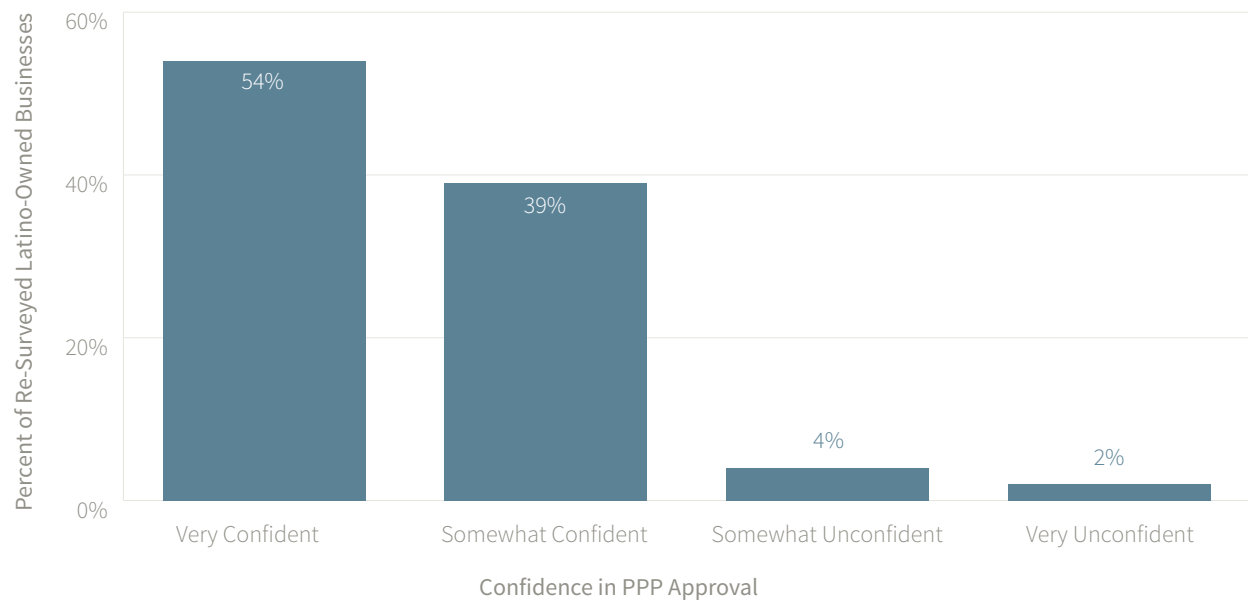
By the end of July, the Paycheck Protection Program had dispersed over 5 million loans totaling \$521 billion.<sup>41</sup> There were many shortcomings related to the administration of the program that negatively impacted Latinos and other minority business owners; for example, in the initial wave, only national banks were approved to disperse funds.<sup>42</sup> Our research has shown that Latinos are not as successful in obtaining funding from national banks (**See Section III**) as they are with Community Development Financial Institutions (CDFIs) and local banks. Fortunately for Latino businesses, in the second wave, this list of approved lenders did include CDFIs where Latinos experienced greater success in receiving PPP loans.

Our research has shown that White business owners were twice as likely to have their PPP funding approved relative to Latinos,<sup>43</sup> consistent with previous studies that have

shown that minority entrepreneurs experienced disparities in levels of encouragement to apply, types of products offered, and information provided by the bank representatives about the PPP.<sup>44,45</sup>

Among the employer businesses that were able to successfully navigate and access PPP funding, loan forgiveness and subsequent grant money are likely to have significant impact on their business prospects in the next few years. Many entrepreneurs feel that in order to keep their businesses afloat, they need to incur significant debt through the PPP and will find it challenging to repay it in the future. At the time of this report, there is no guarantee of loan forgiveness or streamlining of the process. When asked about the likelihood of PPP forgiveness in September, roughly half of LOBs were very confident that they will be forgiven (**Figure 14**).

Figure 14  
Likelihood of PPP Forgiveness



SOURCE: SLEI September Pulse Survey N = 132

One survey respondent lamented on the possibility of not being forgiven:

“If we have to repay the PPP loan, we will have to spend at least two decades repaying it. There would be no way to continue to do business with that debt hanging over us, as we are a small family business. We’d have to shut down our business, declare bankruptcy, and take full-time jobs elsewhere. Everyone who works for us, and every vendor we use, would be impacted, and many will be out of business in a chain reaction caused by that.”

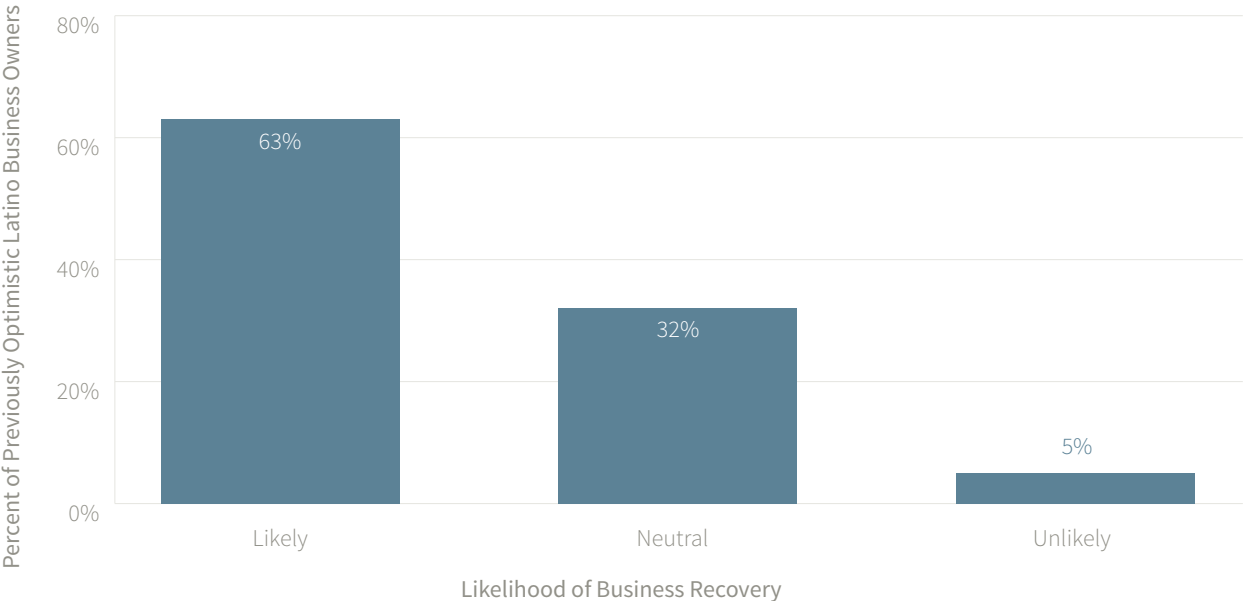
Thus, in addition to accessing relief aid, the subsequent management of loan forgiveness will be a key feature of recovery.

### OPTIMISM WANING AMONG WEARY LATINO ENTREPRENEURS

Despite the challenges to accessing relief aid, at three months into the pandemic, Latinos showed comparable optimism relative to their White counterparts. In June, an overwhelming 80% indicated they would likely recover from the effects of the pandemic. In September, at six months into the pandemic, among the businesses that initially reported being optimistic in June, 63% still believe that their business will likely recover (**Figure 15**). Among those whose optimism has waned, rather than feeling entirely pessimistic, 32% now feel neutral about recovery. The remaining 5% think recovery is unlikely.

# In September, among the businesses that initially reported being optimistic in June, 63% still believe that their business will likely recover.

Figure 15  
Optimism Changes Among Previously Optimistic Businesses



SOURCE: SLEI June and September Pulse Surveys N = 109, overlapping respondents only



# SECTION V BUSINESS ECOSYSTEM

LARRY OLIVAREZ, JR. & PRISCILLA A. OLIVAREZ  
Cofounders, N Crowd

As we have shown in this report, Latinos are making great strides in starting businesses and growing their revenue. Despite these tendencies, securing financing and scaling to be a million-dollar company remain a challenge. One way to mediate these two factors is through the development of a supportive business ecosystem. We define a business ecosystem as a network of individuals and organizations that work together towards shared goals, facilitate joint learning, and engineer effective ways to capture profit.<sup>46</sup> While some business ecosystems evolve through happenstance, others are created through intentionality and the organized work of a lead firm.<sup>47</sup> In the case of our work at the Stanford Latino Entrepreneurship Initiative, our 501(c)(3) collaborator, the Latino Business Action Network (LBAN), is an exemplar of a lead firm. In this section, we highlight the role that formal business organizations, like Hispanic chambers of commerce, play in providing information to meet the needs of the entrepreneurs that they serve. Importantly, we find that being connected to organizational or personal networks is related to success (higher revenue growth and positive funding outcomes) and Latinos are more likely to participate in formal business organizations compared to their White counterparts.

## ORGANIZATIONAL NETWORKS CORRELATED TO REVENUE GROWTH

Latino owners of employer businesses have comparable family histories of entrepreneurship relative to their White

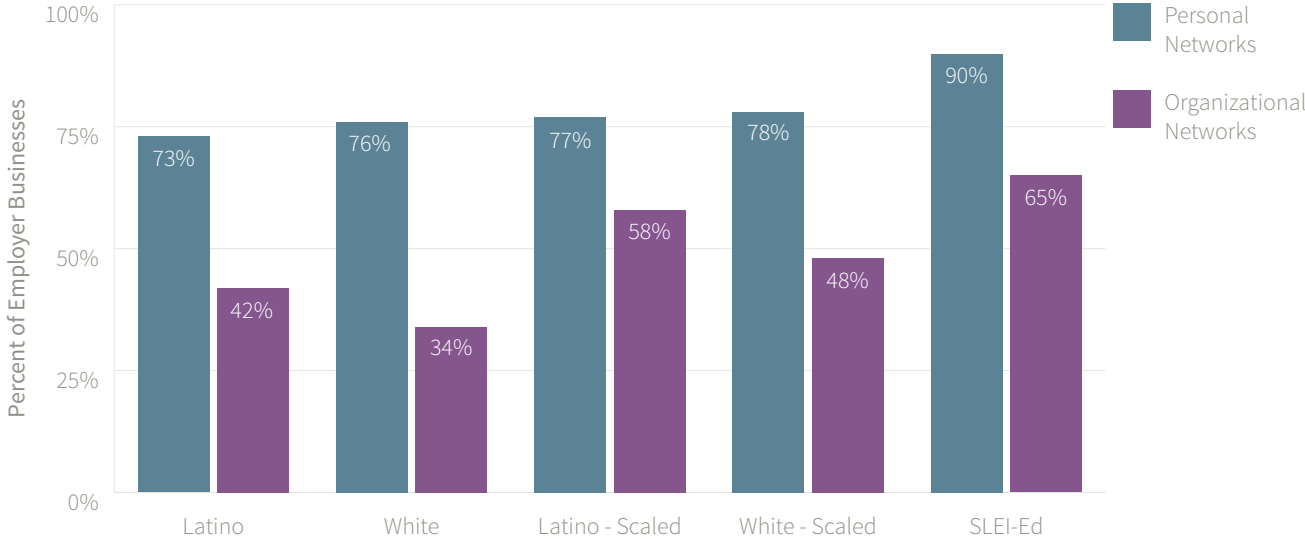
counterparts, with 41% and 48% respectively reporting either parent as currently or previously owning a business. Regardless of one's family background, mentors and networks play an important role in supporting business owners. As part of the business ecosystem, we measured personal and organizational networks of the employer businesses in our sample. For personal networks, we capture the role of business mentors, other business owners, and professional colleagues who may provide advice for business related challenges or access to a crucial resource. We do the same for organizational networks which consist of chambers of commerce, trade associations, economic development organizations, and government-supported technical assistance programs.

As shown in **Figure 16**, both Latino and White business owners leverage personal networks at a higher rate than organizational networks. Interestingly, Latinos are more connected to organizational networks than White business owners, 42% compared to 34%. Alumni of Stanford's SLEI-Ed program stand out in that 90% of those in the group leverage organizational networks. We previously reported that this subset of Latino businesses owners had a significantly higher rate of approval for PPP loans compared to other scaled LOBs (82% versus 18%).<sup>48</sup> This strong correlation might speak to the role of organizations in distilling and synthesizing fast-changing information.



# Latinos are more connected to organizational networks than White business owners, 42% compared to 34%.

Figure 16  
Distribution of Connectivity in Personal and Organizational Networks Across Business Groups



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

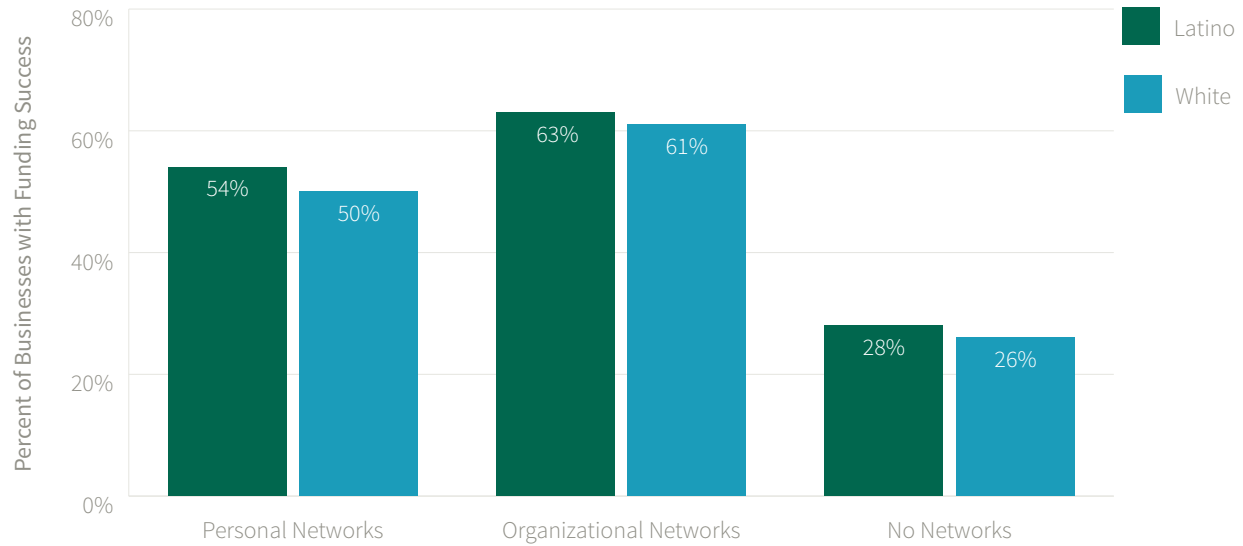
We find that networked LOBs have higher revenue growth on average than those that are not tapped into a network. This relationship does not hold among scaled LOBs. It might be that scaled businesses are already fast growing and less likely to experience significant additional benefits from organizational participation. We also find little growth among WOBs that participate in organizational networks. This might suggest that business organizations for scaled White businesses serve a different purpose, especially if they are not fast growing. Among the reported motivations for networking, WOBs are more likely to cite cost reduction. The top three reasons why Latinos engage in networking are:

1. Establishing a relationship with an experienced entrepreneur
2. Acquiring talent
3. Increasing sales

## ORGANIZATIONAL NETWORKS CORRELATED TO FUNDING SUCCESS

We find that businesses that leverage organizational and personal networks are more likely to come in contact with capital providers. Additionally, as shown in **Figure 17**, LOBs that leverage organizational networks are more than twice as likely to experience funding success than those that did not engage in any networking activities (63% versus 28%). In fact, the former are also more likely to come in contact with capital providers at least once a month (45% versus 15%).

Figure 17  
Networks and Funding Success



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

Limited networks and social capital are often cited reasons for the inability of entrepreneurs to access capital and other critical resources. The data show that Latino owners of employer businesses are more involved with organizational networks than their White counterparts, pointing to the need for coordinated efforts and the intentional creation of a business ecosystem. In our previous research, we have shown the importance of other organizational stakeholders, such as corporations and government for contracting and procurement opportunities, that are also correlated to growth.<sup>49</sup>

A portrait of José Ochoa, CEO and President of Global Containers & Custom Packaging Inc. He is a middle-aged man with dark hair, wearing a light-colored blazer over a dark shirt. He is smiling slightly and looking towards the camera. The background is an office setting with framed pictures on the wall and a coat rack.

# SECTION VI CONCLUSION

**JOSÉ OCHOA**  
CEO and President, Global Containers & Custom Packaging Inc.

## IMPLICATIONS FOR POLICYMAKERS, LENDERS, AND LATINO ENTREPRENEURS

While the 2020 SLEI Survey of U.S. Business Owners was administered during a time of unprecedented change, the findings are nonetheless informative in capturing pre-pandemic trends and foreseeable challenges. Through the direct comparison of a benchmark group, White business owners, we quantify the business performance of Latino-owned businesses and their experiences in accessing capital as the need for financing continues to grow.

In particular, we highlight that among multiple measures and criteria considered for funding, Latino-owned and White-owned businesses display comparable performance. We find that Latino-owned employer businesses are outpacing their White counterparts in revenue growth. On other measures, we find comparable credit risk among employer businesses. Mystery shopping studies in the business lending process have found that at the initial point of engagement, minority entrepreneurs are provided different information and shown different products.<sup>50</sup> Collectively, this research speaks to the opportunity for lending institutions to assess their practices at initial intake and their overall lending outcomes among small business owners. The Consumer Financial Protection Bureau is tasked with understanding the small business lending market and may support in implementing federal

guidelines. Importantly, gathering data about the borrower's racial and ethnic background is an important first step. SLEI research will continue to track these critical metrics over time.

From the demand side, these findings also speak to the active role that Latino entrepreneurs may take with their lending providers, including establishing relationships before the need for capital arises, inquiring about the reasons why their request for funding was not approved, and locating lending institutions amenable to their needs. We find that CDFIs are increasingly filling this need.<sup>51</sup> We also find that formal business organizations are playing an important role in the business ecosystem for Latino entrepreneurs, especially as it relates to providing information and contacts around financing. As we home in on the experiences of Latinos through a comparative lens, we may better understand how to expand access to capital for those historically underserved by financial institutions but consistently contributing to the entrepreneurial dynamism of the United States.

# APPENDIX

## A. METHODOLOGY

### OVERVIEW OF THE SLEI SURVEY OF BUSINESS OWNERS

Since 2015, the Stanford Latino Entrepreneurship Initiative has collected national survey data on Latino-owned businesses across the country and Puerto Rico on a yearly basis and revealed the findings about six months later in the State of Latino Entrepreneurship report. This year, we have expanded our sample to include White business owners for comparative purposes. To be considered for the Latino business owner sample, respondents must answer these questions affirmatively: Are you a business owner with 50% or more ownership and are you of Latino or Hispanic origin. (If yes to the second, they simultaneously specify country/ancestry.) Latino business owners are of any race and for the White business owner sample, respondents must indicate they are not Latino. Additionally, this year, we focus on employer businesses for the reasons outlined in the “About this Report” section. We also only include businesses earning over \$10,000 in revenue to parallel census survey parameters. The survey instrument is an online questionnaire administered through the Qualtrics platform that typically takes 10 to 15 minutes to complete. Respondents for the

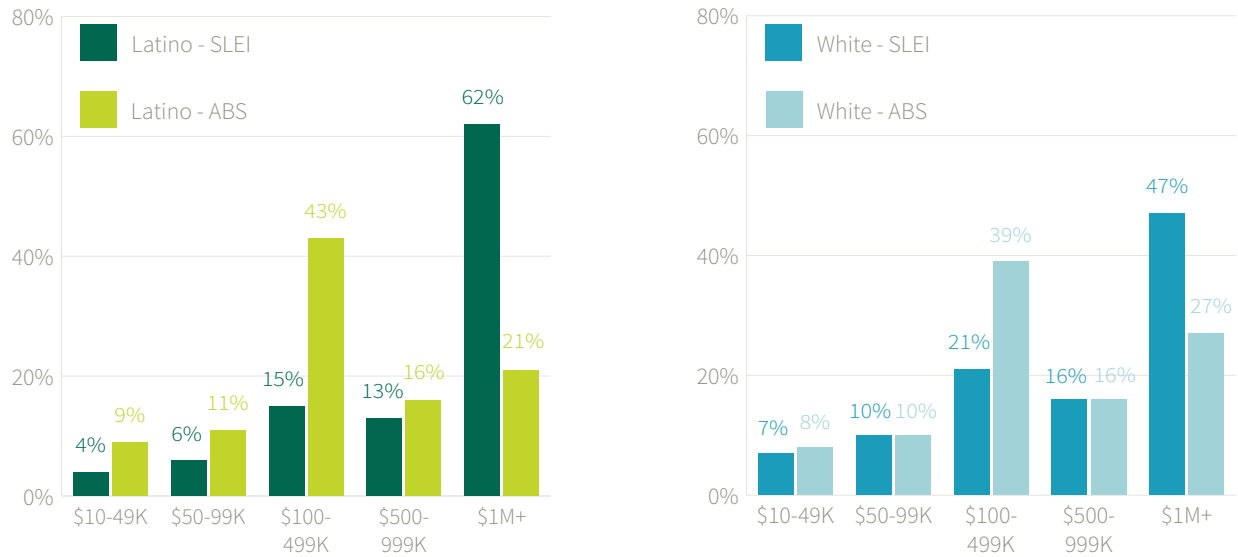
comparison sample were obtained through proprietary Qualtrics business panels. All comparison group calculations are conducted on this same panel sample.

To augment our Latino business owner sample, we work with trusted partners to disseminate our surveys through their membership groups. This year, the California Hispanic Chambers of Commerce was one such collaborator that obtained a sample of over 200 Latino business owners. We leverage these and other data collected through our networks for regional and organizational reporting.

### WEIGHTING THE SAMPLE FOR REPRESENTATIVENESS

We supplement our data throughout this report with known counts of employer businesses from the 2018 U.S. Census Annual Business Survey (ABS). Our sample of employer businesses are generally representative of employer businesses at large in terms of industry, geography, and age of business. **Figure 18** compares the business revenue between the unweighted 2020 SLEI survey and the 2018 ABS.

Figure 18  
**2020 Unweighted SLEI Survey Compared to 2018 ABS (Business Revenue)**



SOURCE: SLEI Survey of U.S. Business Owners, 2020 and U.S. Census Bureau's 2018 Annual Business Survey

To more closely match the population of Latino- and White-owned firms in the United States, we adjust for sample differences by weighting to estimates from 2018 U.S. census data by revenue, number of employees, industry, and region. We use a statistical technique known as “raking,” which uses iterative post-stratification weights to match the marginal distributions of each survey sample to known population margins. We stratify based upon industry, region, and firm size (in terms of both employees and revenue). We then compare the group of businesses in each stratum to the comparable population of businesses in the nation. We report findings based on statistically significant differences in means when comparing two groups and note places where there are no differences from a statistical vantage point.

### LOGISTIC REGRESSION RESULTS

In the financing section of the report, we predict the likelihood of getting a loan approved from national banks. We ask about a variety of funding types as follows: “In the past 12 months up until now, what funding have you requested for your business. Select all that apply.” A total of 792 business owners indicated that they requested a business loan from a national bank. The dependent variable

is then generated based on a collapsed version of the outcomes of loan approval (1=all or most funding received; 0=none or some funding received). We then fit a logistic regression as a generalized linear model as it predicts variables with various types of probability distributions by fitting a linear predictor function to the expected value of the variable. The logit model is expressed as:

$$\log \left( \frac{\pi}{1-\pi} \right) = X_i \cdot \beta$$

where  $\beta$  is a vector of parameter estimates and  $X$  is a matrix of independent variables. In log odds, we calculate  $\log \left( \frac{\pi}{1-\pi} \right)$  where  $\pi$  represents the probability of the dependent variable and  $\left( \frac{\pi}{1-\pi} \right)$  represents the odds of the dependent variable.

### OVERVIEW OF TIME-SERIES DATA ON IMPACT OF COVID-19

SLEI has two concurrent research panels we are building out: a nationally representative panel of Latino business owners with over 1,200 members and the SLEI-Ed alumni group with over 650 members. Two weeks after COVID-19 was declared a pandemic in March, we leveraged this panel to administer

a survey to 224 mostly scaled (\$1 million+ revenue) Latino-owned businesses in the United States to understand the immediate and potential long-term business impacts of the pandemic. We followed up with this same group of business

owners again in June, and September. Of the 224 that responded to the initial pulse in March, 146 responded again in June, followed 131 in September. A total of 109 business owners responded to all three surveys.

**Table 1**  
**COVID-19 Pulse Survey Sample Size**

SURVEY PERIOD	SAMPLE SIZE (N)
March	224
June	146
September	132
March, June, and September overlap	109

**2-YEAR COMPOUND ANNUAL GROWTH RATE**

A simple growth rate formula captures revenue growth between 2 years:

$$\text{2-YEAR CAGR} = \left( \frac{\text{Revenue in the past 12 months}}{\text{Revenue 3 years ago}} \right)^{(1/2)} - 1$$

**5-YEAR COMPOUND ANNUAL GROWTH RATE**

A simple growth rate formula captures revenue growth from one year to the next year. Because CAGR considers average growth rates over a specific time period, this more accurately captures the growth we seek to measure for a 5-year period. We calculate the 5-year CAGR as follows:

$$\text{5-YEAR CAGR} = \left( \frac{\text{Revenue in the past 12 months}}{\text{Revenue 5 years ago}} \right)^{(1/4)} - 1$$

Note that despite referring to the figure above as “5-year” CAGR in our analyses, we consider the number of years (i.e., periods) to be four since the revenue figures that we asked for in our survey (“Revenue in the past 12 months” and “Revenue 5 years ago”) were four years apart. We still call it “5-year” CAGR since we are comparing revenue from five years ago to revenue over the past 12 months.

# B. GLOSSARY OF TERMS

## **BUSINESS ECOSYSTEM**

A network of individuals and organizations that work together toward shared goals, facilitate joint learning, and engineer effective ways to capture profit. While some business ecosystems evolve through happenstance, others are created through intentionality and the organized work of a lead firm.

## **CREDIT RISK**

A measure derived from self-reported personal credit scores ranked from low credit risk (scores above 720) to high credit risk (scores below 620).

## **EMPLOYER FIRM**

A firm that has employee(s) on payroll. These firms are poised to have the greatest impact on the economy and job creation compared to non-employer firms.

## **ENTREPRENEUR**

Someone who starts or owns a business, regardless of industry or business idea. Used interchangeably with business owner.

## **NON-EMPLOYER FIRM**

Firms with no paid employees, annual business receipts of \$1,000 or more (\$1 or more in construction industry), and subject to federal income taxes. These firms make up three-quarters of all U.S. businesses but account for only about 3% of business receipts, according to the SBA.

## **ORGANIZATIONAL NETWORKS**

A measure that includes whether a business owner participates in formal business organizations such as chambers of commerce, trade associations, and/or economic development organizations among others.

## **PERSONAL NETWORKS**

A measure that includes whether a business owner leverages business mentors, other business owners, and/or professional colleagues.

## **SCALED FIRM**

A firm that is generating at least \$1 million in annual gross revenue.

## **UNSCALED FIRM**

A firm that is not yet generating at least \$1 million in annual revenue.

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# SECTION VI ABOUT US

## **STANFORD LATINO ENTREPRENEURSHIP INITIATIVE (SLEI) RESEARCH PROGRAM**

SLEI operates a research program (SLEI-Research) that explores and expands our knowledge of the Latino entrepreneurial segment of the U.S. economy through research, knowledge dissemination, and facilitated collaboration. The program, jointly supported by LBAN and Stanford GSB Center for Entrepreneurial Studies, conducts an annual national survey to assess the current state of U.S. Latino entrepreneurship and is curating a significant panel of Latino entrepreneurs to enable longitudinal research to understand trends over time.

## **SLEI EDUCATION SCALING PROGRAM**

SLEI also operates an education program (SLEI-Ed) as a collaboration between Stanford GSB Executive Education and LBAN. It is an opportunity designed for U.S. Latino business owners who generate more than \$1 million in annual gross revenues or have raised at least \$500,000 of external funding. This seven-week immersive program provides business owners with education, enhanced networks, personal mentorship, and a better understanding of how to access and manage capital to scale their businesses. The program has more than 720 alumni from 31 states and Puerto Rico who collectively generate over \$4.0 billion in annual revenue.

## **LATINO BUSINESS ACTION NETWORK (LBAN)**

This survey was made possible in part through the investment and support for LBAN from principal partners Wells Fargo, Fox Corporation, John Arrillaga, Bank of America, Chavez Family Foundation, Surdna Foundation, Pitch Johnson, and the Latino Donor Collaborative.

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.

Learn more: [www.lban.us](http://www.lban.us)

## **STANFORD GRADUATE SCHOOL OF BUSINESS**

Stanford Graduate School of Business 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.

Learn more: [www.gsb.stanford.edu](http://www.gsb.stanford.edu)