

LATINO IMMIGRANT ENTREPRENEURSHIP IN THE DC-METRO REGION

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Abstract:

This study describes a unique data set collected in the U.S, Capitol region of Latino entrepreneurs. This region has no single dominant Latino group majority but is home to seven substantial subpopulations of Latinos, most of whom are first or second generation immigrants. Data are presented on the business owners (compared to the regional demographics for Latinos) and the firms. We find our sample is better educated than might be expected and have important endowments of financial and social capital, with significant variation within the sample. Future analyses and next steps are presented.

Key words: Entrepreneur, new venture, Latino

Introduction:

Immigrant entrepreneurship is both an historical and contemporary focus of research in the United States. Contemporary studies have been focused on national data sets, which measure labor participation, or on cities or regions where there are historical gateways for entrepreneurs. Other than the Panel Study of Entrepreneurship Dynamics (PSED in the US) and the Global Entrepreneurship Monitor studies (GEM globally) national data sets do not allow a deep analysis of entrepreneurs or ventures due to the research process that gathers data across a myriad of topics only few of which pertain to new ventures. The PSED and GEM data do not oversample or provide much data on immigrant¹ entrepreneurs. City and regional studies do offer some important insights into the immigrant entrepreneur and new ventures and it is upon these, which this study builds.

The US has a number of large relatively recent immigrant populations including Korean, Chinese, Laotian, Ethiopian, and Middle Eastern groups. However, the largest and perhaps the most studied (and most controversial) populations are Latinos from Mexico

¹ Other terms that overlap but are distinctly different include ethnic and minority entrepreneurship. These terms would be defined differently by different scholars and in different countries

and Central and South America. We focus on these populations in the Washington, DC metro area, which has emerged as an important new immigrant gateway city, with Latinos representing the metropolitan area's largest and most rapidly growing immigrant population and the fastest growing of all ethnic and racial groups.² The predominance of Central Americans – the fastest growing Latino sub-group in the US – makes the historically understudied DC metropolitan region a case deserving of particular attention.

The economic health of gateway communities is increasingly tied to the success of first or second generation immigrant entrepreneurs and the employment and economic development potential they offer. In addition to generating a broad range of economically valuable goods and services, new immigrant businesses are vital to the economic well being of communities across the region, both as sources of income for entrepreneurs themselves and as sources of employment in the Latino community and beyond.

While this study looks at Latinos in the nation's capitol, we believe the insights may apply to Latino populations in other gateway cities in the US. Furthermore, the study may also shed light on (and offer research design options for) ethnic communities with roots in other sending counties and in other countries of settlement.

Among US minority groups, Latinos are the most likely to start a business. Nationally, Latino-owned businesses have more than doubled since 2002, and from 2012 to 2015 have increased at *fifteen times* the national rate (*Hispanic Businesses & Entrepreneurs Drive Growth in the New Economy.*, 2015). Immigrants often have barriers to employment such as language proficiency, education and training, and recognized credentials, which often leads to self-employment usually called necessity entrepreneurship as it is foremost a substitute for employment (Chrysostome, 2010). Opportunity focused entrepreneurs seek a venture to exploit a market niche, expand

² United States Census Bureau, 2005 and 2014 American Community Survey 1-Year Estimates. Author calculations. The US Census defines Hispanic/Latino ethnicity separately from race. As such, Latinos also must identify themselves with a racial group, the major categories of which include: White, Black/African American, Asian, Native American/American Indian, and Alaska Native/Pacific Islander. Based on these categories, Latinos in the DC metropolitan area are the third largest of all groups (behind White and Black/African American) and the fastest growing.

product use, processes improvement etc. and the problems with this type of new venture (and for necessity ventures that attempt to grow) include knowledge of markets and legal environment, financing, industrial norms, operations and other strategic issues.

While we possess much information about U.S. based Latino small businesses, the overwhelming majority of existing research has focused on well-established Latino subgroups in traditional immigrant gateway cities, such as Cubans in Miami, Mexicans in Los Angeles and Chicago, and Puerto Ricans in New York or Boston (Shinnar & Young, 2008; Tienda & Raijman, 2004). There is relatively little available research on other Latino subgroups in lesser-known or newer immigrant gateway destinations. In particular, scholars and practitioners lack a data-driven understanding of Latinos in the Washington DC-metro region, which is demographically unique with its diversity of Latino populations, where those of Central and South American origin predominate.

The objective of this preliminary report of our larger study of Latino entrepreneurship in DC is to fill this gap by presenting a systematic description of Latino-owned businesses and Latino entrepreneurs in the DC area. Notably, we developed data on the differences among Latino business owners in terms of country of origin, education level, family background, and industry experience, as well as in terms of their access to financing and formal banking services, home-country business connections, and membership in Latino and non-Latino-based organizations. These human and social capital variables are well-studied in studies predicting intentions to and eventual start up behaviors (B. Bird, 2015; B. J. Bird & Schjoedt, 2009). In addition, we developed data on the firms of these individuals, including industry, revenues, and employees. While not presented here, we also examined the motivations for migration of the first generation of immigrants with the hypothesis that those fleeing violence will be more inclined to necessity venture and more inclined to use effectuation-based decision making {Sarasvathy, 2001 #221;Sarasvathy, 2004 #310} compared with those who flee poverty or migrate in search of other opportunities. We also examined the motivations for starting up, planning behaviors, and satisfaction.

Method:

In collaboration with community partners working with Latino-owned businesses in the metropolitan area, the research team administered a voluntary survey designed to provide systematic and detailed insights into Latino entrepreneurs and their businesses. The analysis presented in this preliminary report is based on surveys collected from the owners of 200 new Latino businesses. Other approaches to finding Latino entrepreneurs were not effective. This is a classic “hard to reach” sample and our sample is necessarily biased by the methods we used to obtain access to them.

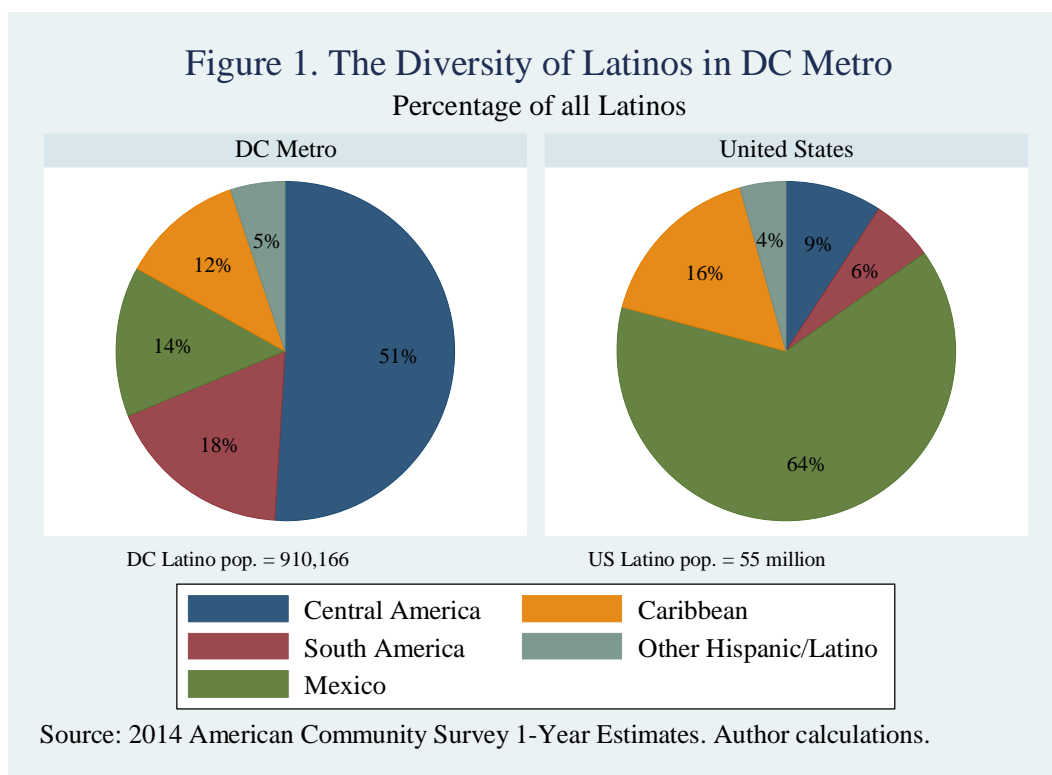
The survey produced a rich data set on a range of factors that are related to the sustainability and success of Latino businesses. The data promise to help illuminate the relationships between financial capital (start-up cash, access to loans, etc.), human capital (education level and industry experience) and social capital (connections to potential suppliers, customers, and employees), and the size of businesses created and satisfaction of the entrepreneur. We intend to survey the respondents again in two years to see impacts on venture survival and growth.

Results:

Characteristics of DC Latino Entrepreneurs. The US is a nation of immigrants, and the Washington, DC area is increasingly a region of immigrants. Latin American-born immigrants are the largest single group, both in the US (51.6%) and in the DC metro region (39.9%).³ Immigrants make up a larger share of the DC population (22.6%) than of the US population (13.3%); and similarly, Latinos are more likely to be immigrants in DC (59.7%) than in the country as a whole (39.6%), reflecting its status as a new destination city.

³ United States Census, 2014 American Community Survey 1-Year Estimates.

The Washington DC-metro region is also demographically unique with its diversity of Latino populations--immigrant and US born--compared to the US as a whole. Nationally, Mexicans are by far the most common Latino subgroup, followed by Puerto Ricans and Central Americans as distant second and third positions (see Figure 1). In contrast, the DC region has a diversity of Latino subgroups, with no national-origin group constituting a majority, and where more than half are of Central American origin. The share of Latinos in DC with South American roots is almost three-times the national share and the Mexican share is less than a quarter of the national level.



Of the Latino entrepreneurs we surveyed, 20 percent were born in the US, consistent with findings that immigrants are more likely to start businesses than the native born population. Among the immigrants surveyed, the typical respondent migrated to the US two decades ago, in 1995, and to the DC area in 1999 (see Table A-1).⁴ The average age

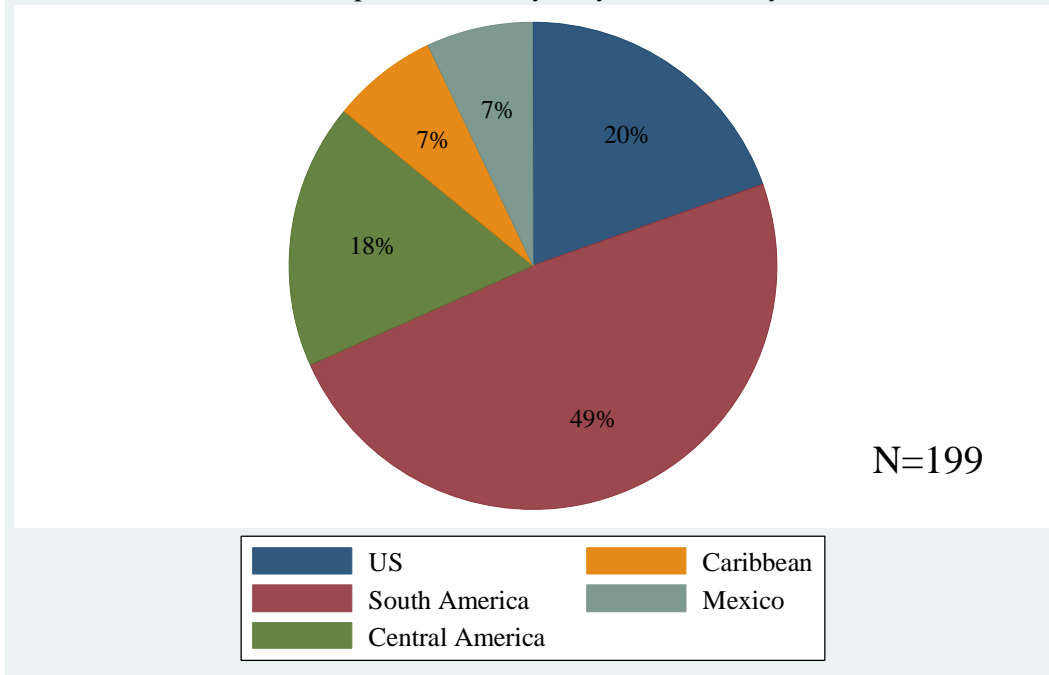
⁴ These were the respective median years of arrival; the arithmetic means were, respectively, 1993 and 1996.

of first arrival to the US was 23 and to DC it was 27. The youngest age of migration to both the US and DC was one year old, and more than one in five immigrant entrepreneurs (22.6%) migrated to the US as a minor under the age of 18. Finally, the Latino immigrant entrepreneurs in our study had lived in the US on average for 22 years and in DC for 19 years. Possibly related to this long-term residency, more than three-fifths (62.1%) were naturalized US citizens. Of the non-citizens, almost two-thirds (62.3%) were legal permanent residents or had some other type of visa. The remaining third said they had some "other" residency status or that they preferred not to answer.⁵

Consistent with the demographics of the Latino population in the Washington, DC area, our study reflects great internal diversity in terms of country of origin (see Figure 2). However, while 51.0% of the metro area Latino population is from Central America, only 17.6% of our sample of business owners is. South American business owners were overrepresented, making up almost half of our sample and 17.8% of metro Latinos. Mexicans were also underrepresented as business owners--7.0% compared to 14.3% of the metro Latino population.

⁵ We did not ask respondents to identify themselves as undocumented.

Figure 2. South and Central Americans Most Common Entrepreneurs Surveyed by Birth Country



It is important to note, however, that a significant share of sampled Latino entrepreneurs--and Latinos in general--are born in the United States. In addition to this finding, and in contrast to the Latino *immigrant* entrepreneurs interviewed in the pilot study (not reported here), where South Americans were overrepresented, US born entrepreneurs were more likely to be of Central American, Caribbean, or Mexican ancestry. Future analysis will look at the counties of origin of the parents.

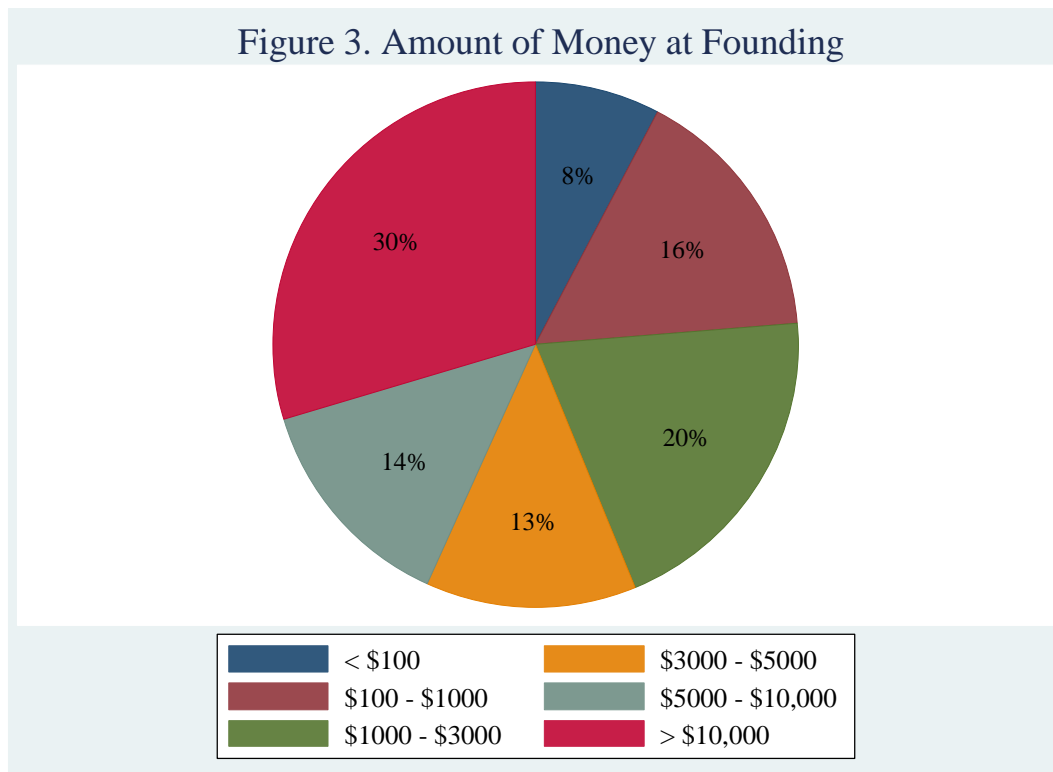
Other demographics. The majority of those surveyed were men (58%), and the average age was 46. More than two-thirds (131) were married, with close to 20% being single, 11% divorced or separated, and the remaining 3% identifying themselves as being in a civil union. On average, the entrepreneurs in our sample had 2 children, but almost one-in five had no children.

Capital Endowments: Financial, Human, and Social. The success of small business ventures depends in large part on entrepreneurs' access to financial capital (e.g., through loans, savings, family wealth, etc.), human capital (e.g., education, industry experience,

etc.), and social capital (e.g., organizational membership, local and transnational community connections, etc.).

We find that only one in three (35.4%) Latino entrepreneurs in the DC metropolitan area had received a loan for their business, suggesting that a lack of access to formal financing is a likely impediment to success. However, the vast majority (96.4%) had an independent bank account for their business, suggesting a level of formality.

Furthermore, despite the large majority of businesses without a formal loan, more than half of the entrepreneurs surveyed started their business with more than \$3,000 and three in ten (29.6%) started their business with more than \$10,000 (see Figure 3). That said, one in four started with less than \$1,000 and 8% started with less than \$100.



Of course, money or favorable market circumstances are not sufficient for venture success. New business owners need to understand the rules and processes required of businesses, and this is an especially important challenge for immigrant entrepreneurs. As such, this study gathered data on the educational attainment of entrepreneurs, as well as prior experience in their industry and whether or not their parents were business owners.

These are all important indicators of human capital, which indicate knowledge that entrepreneurs already have, or the capacity that they have to quickly learn what they need to be successful. It is in this way that human capital can serve as a fundamentally important complement to financial capital.

Our research suggests that Latino entrepreneurs in the DC metro area have high levels of education, with only 14.6% having a high school education or less and large percentages having earned an undergraduate (29.2%) or graduate degree (37.5%)⁶.

The data also show that Latino entrepreneurs in the DC metro area tended to have considerable experience in the industry before starting their business, another indicator of human capital. The largest numbers of entrepreneurs had six to ten years of experience or one to five years. Almost two-thirds had ten years or less working in the industry before starting their business. The remaining third, however, had ten or more years of experience before starting their business. Finally, more than two in five (43.2%) entrepreneurs surveyed had parents who were business owners.

In addition social capital endowments have been shown to be particularly important for entrepreneurs with lower levels of education and who lack financing. For example entrepreneurs sometimes access informal financing from members of their community, and can rely on kinship networks to connect with suppliers, customers, and employees. Additionally, entrepreneurs with limited formal means of accessing industry information, or knowledge about local rules and regulations, are often well positioned to draw on the experience of others from their country of origin, and potentially Latinos more broadly. More formal organizational affiliations can also provide crucial connections and help entrepreneurs gain necessary know-how to succeed.

Our research found that almost a quarter (23.3%) of Latino entrepreneurs belonged to one organization and 46.6% belonged to more than one, which is not surprising since the

⁶ This and other results may be an artifact of our sampling frame, using clients of and contacts from Bizaunch and the GWHCC.

business providers who gave access to clients and prospects were our source of sample. Only 30.2% did not have any organizational affiliation.⁷ Of those affiliated with at least one organization, three-fourths (76.9%) were either Latino-based organizations, Latino and White, or Latino and Black. Only one respondent was a member of an organization that was mostly Black, but almost a quarter (22.3%) belonged to a mostly White organization.

That said, it is noteworthy that the entrepreneurs in our sample did not depend for their success on a Latino customer base. Specifically, more than a quarter estimated that they did not have any Latino customers, and another third (34.5%) estimated that only 25% of their customers were Latino. However, more than one in four entrepreneurs estimated that 75% or 100% of their customers were Latino and 12.6% said that half were. Finally, whereas the success of well over half (59.7%) of Latino immigrant entrepreneurs had nothing to do with regular contacts in their home country, 23.1% of respondents said such contacts mattered somewhat and 17.2% reported that they mattered a lot.

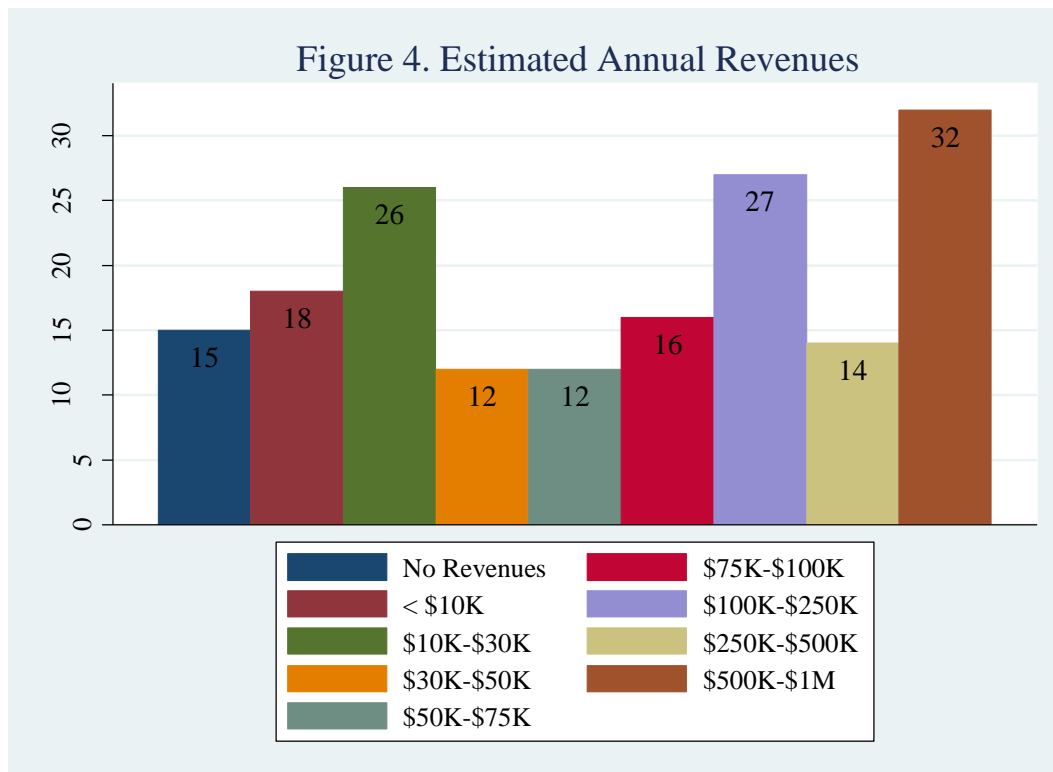
Motivations. The most common reasons for starting their businesses cited by the entrepreneurs sampled were "independence" (94.4% said this was an important reason) and "to exercise skills" (92.1%). The least common reason cited as important was "because jobs were hard to find" (27.6%). Though 61.8% did say that the opportunity to earn more money than in a job was important, our analysis suggests that the entrepreneurs studied here were looking to take advantage of opportunities that they felt business ownership offered, rather than being pushed into self-employment out of economic necessity.⁸

⁷ This indicator is somewhat limited due to the fact that we accessed our sample by drawing upon the membership list of the GWHCC and by locating potential entrepreneurs to take the survey at GWHCC and BizLaunch events.

⁸ It is important to note here that we cannot safely generalize to the entire population of new Latino business owners in the DC area, as the nature of our sample frame made it difficult to reach informal and self-employed business owners, who are more likely to have been pushed into self-employment due to economic necessity.

Characteristics of the Businesses. Our study focuses on entrepreneurship, and thus generally targeted business founders in their first 6 years of operation.⁹ One in three businesses surveyed had been started since 2013, and more than half of those surveyed (53.8%) owned a business founded since 2011.

The annual revenue earned by the businesses in our sample varied considerably (see Figure 4). The largest group of entrepreneurs said their firms earned between \$500,000 and \$1 million (18.6%), followed by those who had revenues between \$100,000 and \$250,000 (15.7%). The third largest group had considerably lower revenues, between \$10,000 and \$30,000 (26 businesses), and 15 businesses (8.7%) had no revenues at all.



There is a positive association between years of operation and annual revenues, with businesses that have been in operation since 2009 or earlier making up the bulk of those

⁹ That said, 30% of those interviewed started their business before 2009, and 7.9% were not the founder of the business.

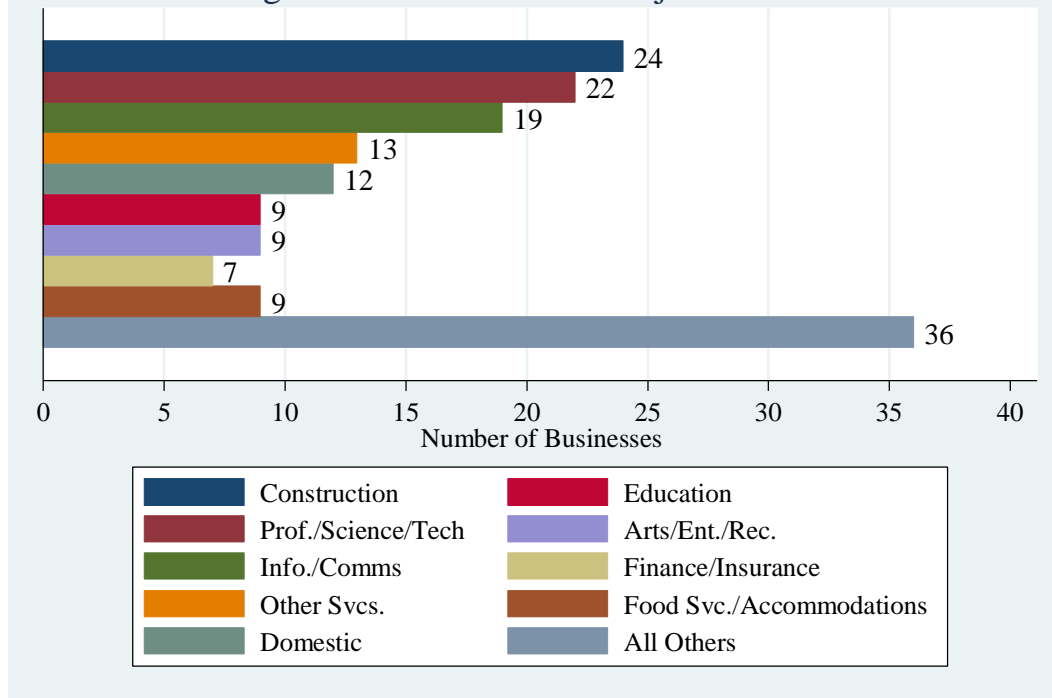
with a half-a-million or more in revenues (71.9%) and those in operation only since 2014 accounting for 66.7% of those without any revenues.

Another indicator of business size is the number of employees. Based on this indicator, one in three entrepreneurs (33.1%) had no paid employees, and almost three-fourths had three or fewer paid workers. Five businesses (2.9% of those surveyed) had 100 or more employees. We also asked how many employees were of Latino origin. Of those businesses with at least one paid employee, almost three in five (57.1%) had only Latino employees, and on average, more than three-fourths of employees were Latino. Only ten (8.4%) had no Latino employees, but three in five (60.0%) had three or fewer.

Industry. The Latino entrepreneurs we surveyed focused on a wide range of industries (see Figure 5). Of those who specified an industry,¹⁰ the most common sector was construction (13.3%), followed by professional, scientific and technical (12.2%), and information and communication businesses (10.5%).

¹⁰ Twenty-eight of those surveyed did not.

Figure 5. Most Common Major Industries



This wide variation of industry sectors will also make possible detailed analysis of the extent to which country of origin in Latin America or the US matters in terms of the opportunities to enter and succeed in different lines of business. Preliminary analysis suggests that Central American entrepreneurs are more concentrated in construction and domestic services, while those from South American countries have their largest group in information and communications industries, but were widely distributed across sectors. Those from Mexico and Caribbean countries were not large in number, but do not appear to be highly concentrated in any sector. Finally, US-born Latinos were most likely to have businesses in the professional, scientific, and technology sectors, as well as finance and insurance, possibly because their deeper roots in the US likely provide them with additional networks, education, and other resources to be prepared to compete in these sectors.

Conclusions and next steps:

Data gathered on the Latino entrepreneurs and their ventures provide a first-ever picture of DC metro area Latino entrepreneurship. This data provides a clear sense of the variation within Latino business community in terms of size, industry, and founders from different countries and with different motivations.

Next steps include analysis of the differences between older (and bigger) ventures with newer and smaller ones. Our sample may allow us to see what differences exist between first- and second-generation immigrants, as well. However additional interviews may be necessary since our sample likely under represented Central American entrepreneurs and over represented South American, particularly Colombian entrepreneurs. We need these additional interviews to more thoroughly look at how differences country of origin and motivation for migration affect the decision-making processes of new venture creation. Specifically we hypothesize that the psychological and social stresses related to migration to escape social or political violence or to escape deep poverty will lead to an effectual decision style more often than the psychology of migration to take advantage of economic opportunities or for educational purposes. We hypothesize that migration for economic benefit is more often associated with “causal” or strategic decision styles. Furthermore, we expect that effectual decision-making will result in fewer planning behaviors than the strategic style. Our sample may allow us to see generational differences in these styles and behaviors.

Finally, two years after data collection, we want to re-survey the respondents to get data on venture outcomes including survival and growth.

Appendix 1. Data and Methods

We developed a survey that could be taken directly (on paper or on-line) by Latino entrepreneurs or could be administered by members of the research team in person or over the phone as a structured interview. The survey was developed based on literature on entrepreneurs and our initial interest in the endowments, motivations, decision making and planning of Latino entrepreneurs. It was initially developed in English and translated into Spanish, and respondents had the option to answer in either language.

Our sample of Latino entrepreneurs was initially difficult to find. We approached several organizations serving the Latino community and collaborated with several groups in the development of the research over the course of the past 5 years. In the end, we partnered with Biz Launch in Arlington, Virginia and the Greater Washington Hispanic Chamber of Commerce (GWHCC). Survey respondents were contacted using a variety of means. First, when these organizations held events to recruit new members, or workshops (e.g., finding financing for your business), our research team would regularly attend to seek survey respondents that fit our selection criteria. In addition, the GWHCC graciously provided us with both their member list and a larger list of businesses that they maintained for membership recruitment purposes. Our researcher team systematically called the businesses on the list, sending them the link to the online survey, administering the survey over the phone, or arranging for a later date to do so. Researchers systematically followed up with those who did not answer the phone until the lists were reasonably exhausted. In all, 200 entrepreneurs have been surveyed.

Participants were offered a \$10 gift link to Amazon.com as a thank you for their time and an incentive to participate.

Appendix II: Tables and Figures

Table A-1. Years Since Migration and Age of Migration
Among Immigrant Latino Entrepreneurs

	N	Mean	S.D.	Min.	Max.
Year of Migration to the US	149	1993	12.3	1957	2015
Year of Migration to DC	151	1996	11.5	1959	2015
Years Living in the US	149	22	12.3	0	58
Age of Migration to the US	146	23	10.2	1	49
Years Living in DC	151	19	11.5	0	56
Age of Migration to DC	148	27	10.1	1	54

Table A-2. Business Phase by Founding Year

	Start-up		Existing		Growing		Total	
	#	%	#	%	#	%	#	%
2014 - present	38	62.3	2	4.6	3	3.9	43	23.5
2013	7	11.5	4	9.1	8	10.3	19	10.4
2012	8	13.1	5	11.4	10	12.8	23	12.6
2011	3	4.9	4	9.1	7	9.0	14	7.7
2010	2	3.3	4	9.1	8	10.3	14	7.7
2009	0	0.0	2	4.6	8	10.3	10	5.5
Before 2009	3	4.9	23	52.3	34	43.6	60	32.8
Total	61	100	44	100	78	100	183	100

Table A-3: Annual Revenues by Founding Year

Number of Businesses

	2014 or after		2013		2012		2011		2010		2009		Before 2009		Total	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
No revenue	10	66.6	1	6.7	1	6.7	1	6.7	1	6.7	1	6.7	0	0.0	15	100
< \$10K	9	50.0	4	22.2	2	11.1	0	0.0	1	5.6	1	5.6	1	5.6	18	100
\$10K - \$30K	9	34.6	7	26.9	4	15.4	2	7.7	1	3.8	0	0.0	3	11.5	26	100
\$30K - \$50K	4	33.3	0	0.0	2	16.7	1	8.3	0	0.0	2	16.7	3	25.0	12	100
\$50K - \$75K	1	8.3	3	25.0	2	16.7	0	0.0	1	8.3	2	16.7	3	25.0	12	100
\$75K- \$100K	1	6.3	0	0.0	2	12.5	1	6.3	3	18.8	1	6.3	8	50.0	16	100
\$100K - \$250K	4	14.8	2	7.4	6	22.2	2	7.4	4	14.8	3	11.1	6	22.2	27	100
250K - \$500K	0	0.0	1	7.1	0	0.0	3	21.4	1	7.1	1	7.1	8	57.1	14	100
\$500K - \$1M	3	9.4	0	0.0	1	3.1	3	9.4	2	6.3	0	0.0	23	71.9	32	100
Total	41	23.8	18	10.5	20	11.6	13	7.6	14	8.1	11	6.4	55	32.0	172	100

Pearson $\chi^2(48) = 108.4834$ Pr < 0.001

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