

Small U.S. Latino Businesses How and When?

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In this article, we will explore the fundamental causes of the rise in small Latino, particularly Mexican-owned, businesses in the U.S. economy. These firms have acquired significant presence in different parts of the service sector, like food preparation, trucking, housework, and the hospitality and entertainment industry, as well as in building services.

They are oriented mainly, but not exclusively, to the Latino market, with a purchasing power of US\$776 billion, the equivalent of two-thirds of Mexico's gross domestic product (GDP) in 2010. This is clear evidence of the high potential for earnings and consumption in this sector. This involves the demand for goods and services from a population of 50.7 million

people of Hispanic or Latino origin with an average annual income of US\$40 000 per person.¹

We identify two phenomena in the origins of these small companies. The first is the dynamic and social characteristics of migration from Mexico to the United State, which can be summarized as a high growth rate and, in general, the affirmation of linguistic, cultural, and social values. The second phenomenon is linked to the business setting, defined as the web of regulatory (fiscal, financial, sanitary, etc.) and promotional institutions that generate a structure of incentives, which, in our opinion, are decisive for immigrants' opening and developing small businesses.

The planning and executing of a certain kind of firm in the restaurant sector in California and other states is of particular interest because it seems emblematic of the Mexican immigrants' entrepreneurship. They generate *competitive ad-*

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vantages that correspond to the social practices of the Latino population, like the use of Spanish, the cuisine of their country of origin, and the way the community lives together. The combination of these elements explains the nostalgia and ethnic products market that is having an impact in creating what could be the probable creation of a *Latino business model* based on establishing productive spaces linked to cultural affirmation. At the end of this article, we point to some traits that typify the organizational structure of Latino businesses, their modes of operation, and the commercial and productive advantages that make them different and competitive *vis-à-vis* conventional firms.

Some initial results in our research point to the need to consider the viability of a program to disseminate and foster this incipient business model. This program would contribute to the consolidation of the disjointed, complex world of small businesses in the United States in the format of a local, state, or regional network, with positive impacts on employment, earnings, and the reaffirmation of the Latino community's cultural and social values.

ECONOMIC AND CULTURAL CHARACTERISTICS OF THE U.S. HISPANIC MARKET

The institutionalist theoretical approach allows us to incorporate sociological and cultural dimensions into our analysis of small businesses, making it possible to have a comprehensive understanding of their development in the context of immigration and the government regulatory bodies dealing with economic activity. We will analyze the social and cultural traits of the Hispanic market, which has been conceptualized as a “nostalgia market” and “ethnic products.”² The demand in these markets supports the revitalization of customs and contributes to strengthening cultural identities in the face of the uniformity of consumption patterns fostered by globalization.³

The phenomenon of migration is extremely complex and influences economic processes in different ways. The trends among the Latino population in the United States have an impact not only on consumption patterns, but also on productive activities through entrepreneurs. When we talk about consumption and markets, we have to remember that the U.S. Hispanic population is 50.7 million people, including 36 million Mexicans, whose deep insertion into U.S. society gives them growing electoral weight and greater visibility. Mexican emigration to the United States has decreased sig-

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nificantly: estimates put the projection of net migration of Mexicans at 260 000 per year for the period between 2011 and 2017, a much lower figure than the 466 000 per year registered from 1990 to 2000.⁴ Nevertheless, the Latino market itself will continue to expand.

From the point of view of its weight in the Latino consumer market, the main and highest demographic concentration of Mexicans is in Los Angeles (3 510 677 people). This is more than three times the size of the Cuban-origin population in Miami (856 007); in the Bronx, the population from Puerto Rico comes to 298 921.

In addition, the Hispanic population has an average income of US\$40 000 a year. The Mexican-origin population earns an average of US\$38 000 annually and is 27 years old on average.⁵

The United States boasts 4.9 million small companies, which generate three-quarters of all new jobs every year. Of these, 900 000 (almost 20 percent) are Hispanic, of which 105 247 are owned or operated by Mexicans (see Table 1).⁶ These businesses operate in *highly specialized and differentiated markets* that offer opportunities for export for companies located in Mexico or elsewhere, as well as being a source for jobs and income for immigrant entrepreneurs in the United States.

Ethnic entrepreneurs have an initial advantage over their competitors since they are familiar with the preferences of consumers from their country of origin and they speak the same language. In 2007, only 23 percent of first-generation Spanish-speaking immigrants spoke English well.⁷ These characteristics become *competitive advantages for small Latino businesses* in different economic activities, particularly in the restaurant industry. Of a total of 100 000 Mexican small businesses in 2010, the largest group was made up of restaurants (8 986) and the second largest of landscaping services (8 911). The rest of the firms were divided among building services, trucking, day-care services, etc. However, the regulatory institutional setting and the support and incentives are fundamental to these businesses.

TABLE 1
U.S. IMMIGRANT-OWNED BUSINESSES
BY COUNTRY OF ORIGIN (2010)

COUNTRY	NUMBER OF BUSINESSES	PERCENT OF TOTAL COMPANIES	PERCENT OF TOTAL JOBS
Mexico	105 247	12	31
India	62 526	7	4
South Korea	56 073	6	2
Cuba	35 769	4	2
China	34 181	4	2
Vietnam	31 283	4	3
Canada	27 648	3	3
Iran	25 289	3	2
Philippines	19 788	2	1
Poland	17 448	2	5
Others	450 539	52	1
Total	865 791	100%	100%

Source: Fiscal Policy Institute, “What Kind of Businesses Do Immigrants Own? Detail by Country of Birth,” June 2012, p. 1, <http://fiscalpolicy.org/wp-content/uploads/2012/06/immigrant-business-owners-by-country-of-birth-20120615.pdf>.

HOW DOES THE INSTITUTIONAL ECONOMIC SETTING FAVOR SMALL BUSINESSES?

Market economies are fraught with uncertainty and the risks accompanying any transaction. Economic and political institutions are designed to mitigate the risks by creating clear rules and a climate of confidence that favors investment decisions, consumption, etc. The design and functioning of institutions also generate transaction costs that are different from the usual production expenditures: examples of the former are the costs of obtaining and processing information, doing paperwork, and monitoring permits and contracts, etc.⁸

The Small Business Administration (SBA) makes a considerable contribution to the U.S. regulatory setting. This is a government body charged with supporting these companies, which it conceives of as its priority because their dynamism, creativity, and innovation make them key elements for

growth and job creation. The SBA has a menu of different kinds of support and incentives in the areas of advisory services, entrepreneurial training, capital financing, hiring, and disaster assistance.⁹ Its programs and advisory services are carried out through a network of partners and collaborative bodies like the Small Business Development Center (SBDC), SCORE, and the Women’s Business Centers.

One central issue for small businesses is financing. The SBA offers loans tailored to the companies’ needs. Once authorized, they are actually handled by private intermediaries. The loans are up to 85-percent SBA-guaranteed. In 2011, the SBA set a record by supporting 60 000 small businesses with an overall sum of more than US\$30 billion in loans. In 2012, it estimated that it gave US\$2.83 billion in financing to more than 1 300 small businesses, which helped create or preserve more than 60 000 jobs.¹⁰

Another interesting institution is the not-for-profit association SCORE, which for more than 45 years has contributed to developing small business in the United States. Most of its collaborators are volunteers and business owners or retired employees. In 2011, it supported 470 000 entrepreneurs. Another link in the institutional support network is made up of the Small Business Development Centers (SBDC), which offer technical and administrative assistance to both new and established firms. Strategically located in certain universities, these centers make it possible to join together those educational institutions’ resources with those of the private and government sectors.

The Women’s Business Centers (WBC) are a national network of 80 establishments designed to provide advisory services to women for starting up small businesses in order to foster equal opportunities for women entrepreneurs, who confront specific challenges as women in the business world. A more recent experience that underlines the efforts in favor of small businesses started up by Latina women in California is the organization *Mujeres activas en el comercio hispano* (Women Active in Hispanic Business, or MACH), headquartered in Los Angeles.¹¹

Immigrants’ entrepreneurship generates competitive advantages linked to the social practices of the Latino population, like the use of Spanish, the cuisine of their country of origin, and the way the community lives together.

TABLE 2
RANKING OF MEXICAN AND U.S. REGULATORY
SETTINGS (2012, OUT OF 183 COUNTRIES)

ACTIVITY	UNITED STATES	MEXICO
Opening a business	13	75
Getting credit	4	40
Paying taxes	72	109
Enforcing contracts	7	81
Protecting investors	5	46

Source: “Doing Business, 2012” report, www.doingbusiness.org/~media/FPDKM/.../DB12-FullReport.pdf.

The demand in the “nostalgia market” supports the revitalization of customs and contributes to strengthening cultural identities in the face of the uniformity of consumption patterns fostered by globalization.

TABLE 3
MAIN ACTIVITIES OF MEXICAN-IMMIGRANT-OWNED
SMALL BUSINESSES IN THE UNITED STATES (2010)

	ACTIVITY OR AREA	NUMBER OF BUSINESSES
1	Restaurants	8 986
2	Landscaping services	8 911
3	Building services	5 158
4	Trucking	4 694
5	Automotive repair and maintenance	3 390
6	Child day-care services	3 215
7	Real estate	2 354
8	Grocery stores	2 292
9	Beauty salons	1 510
10	Farm work	1 449
	All others	63 281

Source: Fiscal Policy Institute, “What Kind of Businesses Do Immigrants Own? Detail by Country of Birth,” June 2012, p. 2, <http://fiscalpolicy.org/wp-content/uploads/2012/06/immigrant-business-owners-by-country-of-birth-20120615.pdf>.

The World Bank and the International Finance Corporation report “Doing Business, 2012” offers an evaluation of business regulations in 183 countries, taking into account 11 indicators like opening a business, getting credit, etc. The report’s starting point is the premise that economic activity requires good regulations that have an impact on companies’ life cycles, particularly in the case of small businesses.¹² In the 2012 classification, for its institutional regulatory setting, the United States ranked fourth, surpassed only by Singapore, Hong Kong, and New Zealand, which ranked first, second, and third, respectively. We cannot refrain from mentioning that Mexico ranked 53rd on this classification of 183 economies around the world.

A preliminary look at the five indicators we consider decisive for small companies puts the United States in 13th place out of the 183 countries in terms of opening a business; in 4th place in terms of the ease of getting credit; in 72nd place in terms of paying taxes; in 7th place for contract enforcement; and in 5th place for protecting investors (see Table 2).

For its part, Mexico ranks 75th for opening a business; 40th for getting loans; 109th for paying taxes; 81st for contract enforcement; and 46th for protecting investors. For the five important indicators for starting and developing small businesses, the United States shows considerable advantages over Mexico. We can therefore infer that the U.S. institutional regulatory structure is more agile and effective, creating more confidence and low transaction costs, which in turn are incentives for entrepreneurs.

IS A LATINO BUSINESS MODEL DEVELOPING IN THE UNITED STATES?

We have stated that defining a company as an organization governed by rules, values, and objectives that go beyond the criteria of maximizing profit allows us a comprehensive understanding of the structure and mode of operation of small Latino businesses. As we mentioned, these kinds of businesses, particularly in the restaurant industry, have developed certain competitive advantages *vis-à-vis* conventional firms in the nostalgia and ethnic products markets.

The benefits from these competitive advantages explain the fact that, of all the small companies owned by Mexicans in the United States, restaurants rank as the most numerous, with 8 900 in the universe of 105 000 establishments. Between 2005 and 2010, they were also the highest

growth sector, averaging 850 new companies each year (see Table 3).

These restaurants, usually family owned and operated, seek to maintain their competitive advantages by combining a productive space with social and cultural practices of their community of origin and by creating supply networks of ethnic and standardized goods produced by Mexicans. On occasion, these businesses operate fundamentally for family, cultural, or religious festivities. They generally employ Mexican workers and operate with competitive prices and personalized dealings with both clients and suppliers.

In summary, these characteristics and forms of operation point to a possible *Latino business model* that, without disregarding profits, also seeks to create spaces for living together and social affirmation. Of course, to a certain extent, the rise in small Mexican businesses confirms the greater visibility and economic, political, and cultural influence of the Latino segment of U.S. society. ■■■

NOTES

¹ In this analysis, we will use the terms “Hispanic” and “Latino” interchangeably.

² The nostalgia markets are made up of the goods and services that are part of the consumption habits, culture, and tradition of the different peoples and nations. Ethnic products are associated with a specific country, but are also consumed abroad by groups with different consumption habits and traditions. See <http://www.eclac.org/publicaciones/xml/7/14737/L589-1.pdf>.

³ Bernardo Olmedo, “Latin American Migrant Markets in North America, ‘Ethnic and Nostalgia Products,’” *Voices of Mexico* no. 86, September-December, 2009.

⁴ Grupo de Estudio de la Migración Regional, “Migración mexicana a los EE.UU” (Washington, D.C.: Migration Policy Institute, 2013).

⁵ S. Motel and E. Patten, “The 10 Largest Hispanic Origin Groups: Characteristics, Rankings, Top Counties” (Washington, D.C.: Pew Hispanic Center, 2012).

⁶ Small Business Administration, “Guía de recursos para las pequeñas empresas” (Los Angeles: SBA, 2004).

⁷ Landen Romei, “Emprendimiento de los Latinos” (Monterey, California: Monterey Institute of International Studies [MIIS], 2011).

⁸ See Oliver E. Williamson, *Las instituciones económicas del capitalismo* (Mexico City: FCE, 1989).

⁹ See <http://www.sba.gov/sba-learning-center>.

¹⁰ See <http://www.sba.gov/content/7a-loan-amounts-fees-interest-rates>.

¹¹ See <http://www.machlosangeles.org/home-espanol.html>.

¹² Banco Mundial and Corporación Financiera Internacional, *Doing Business 2012. Haciendo negocios en un mundo transparente* (Washington, D.C.: BM-CFI, 2012).