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Chapter Author(s): Marlene Orozco, Alfonso Morales, Michael J. Pisani and Jerry I. Porras

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## **PART I**

# **AN INTRODUCTION TO LATINO ENTREPRENEURSHIP – HISTORICAL PERSPECTIVES AND DATA SOURCES**



## CHAPTER 1

# Introduction: Advancing U.S. Latino Entrepreneurship

*Marlene Orozco, Alfonso Morales,  
Michael J. Pisani, and Jerry I. Porras*

What is entrepreneurship? As a fairly recent innovation in economic organization, it is the formation of an organization by way of multiple processes that minimize the risks associated with establishing a business. Shane (2003:4) defines entrepreneurship as “an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that previously had not existed.” Entrepreneurship has also been conceived of as “the pursuit of opportunity beyond resources controlled” (Eisenmann 2013); as exploiting market opportunities, however large or small or at the margins of the economy (Kirzner 1973); as innovation in a dynamic environment that creates and destroys firms (Schumpeter 1912; Schumpeter 1942); and as opportunity or necessity-led self-employment (Williams 2007). Each of these definitions represents observations made of ideas and behaviors in particular social contexts. The definitions represent the interpretation of interaction, and likewise, the notion of *ethnic entrepreneurship* is not static and must conceptually be responsive to context. Let us first consider the entrepreneurship element of this notion.

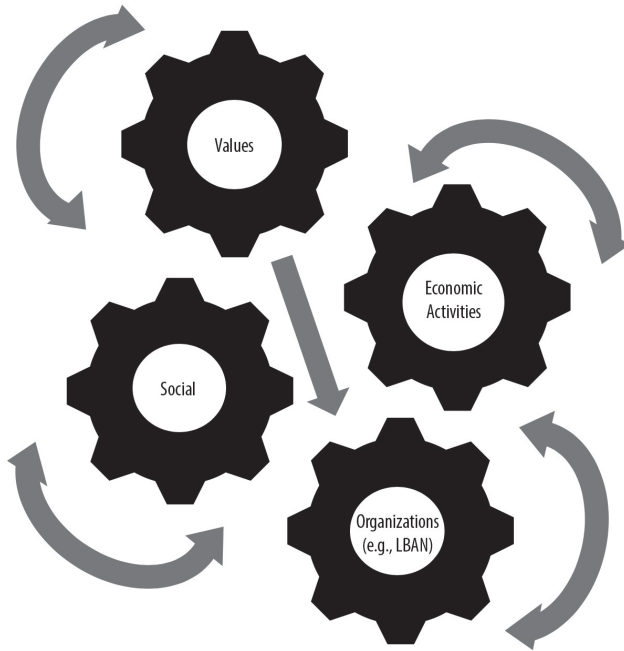
Entrepreneurship has a long history of usage in describing the management of activities and indeed has only recently come to its particular economic usage. Likewise, the “economic” as independent of households or politics is also a fairly recent creation of modernity (Hirschman 1958). The Greeks consider the *oikos* a matter of managing household consumption, not the creation of goods and services, measured independently of households, politics, and religion (Booth 1993). Modernity complemented

our original place-based notion of a market with abstract notions of capital, labor, and land markets as well as a variety of other ideas distinguishing the economy as a distinct institution. However we have measured economic activity, we have never fully separated it from other social institutions. In fact, households, politics, and religion all live in relatively reciprocal relationships with economic activity.

Still, it is this ability to measure that reifies economic activity and makes for analytic techniques to understand the economy and training techniques to hone success in economic activities. This reification allows us to say that generally speaking, capitalist economic organization allocates resources efficiently to clear markets—that is the theory anyway. However, for at least a century, scholars have uncovered two broad types of market distortions: collusion, which impedes efficiency, and discrimination, which impedes transactions that clear markets. Both have been labeled and described as “social constructions” that indicate how the economy is part of society. In fact, the constructivist perspective shows us that what the economist perspective labels “distortions” are, from other perspectives, the way people otherwise ignored by the dominant perspective express their economic ambitions and activities and the people practicing them—that is, how women, ethnic minorities, and their economic practices are structured in the shadow of the larger economy and society. Out of that shadow, we advance this volume.

Our interest is in entrepreneurship as practiced by Latino populations historically and with respect to distinct types of business and scales of analyses. Further, we are also describing organizational tools and analytic techniques for fostering that participation in the broader economy, and thus we are describing the work of the Latino Business Action Network (LBAN) and the creation of the Stanford Latino Entrepreneurship Initiative (SLEI). As an innovative aspect of this volume, we advance a dual-pronged objective of using research evidence to inform current and aspiring entrepreneurs as well as scholarship on ethnic entrepreneurship.

Figure 1.1 illustrates these various relationships by way of a mechanical gear metaphor, each part shifting and contributing to the whole of economic life. The specific opportunity we address is assembling research and tools of engagement that show the world how people of color, specifically Latinos, are the cornerstone of the emerging economy and, further, how programmatic activities are leveraging Latino assets and values across the economy as well as how the economy interfaces with society. The



**Figure 1.1** Latino entrepreneurship framework.

framework in Figure 1.1 shows that Latino (and broadly human) values are in a reciprocal relationship with economic practices. We purposefully chose what looks like integrated gears to show how values drive economic efforts. However, we must point out that like mechanical gears, there can be some slippage and incomplete meshing of the gears. Likewise, often—as in the case of persons passionately pursuing their business in the service of their family—those gears can be tightly fit, with the work driving entrepreneurs past exhaustion in pursuit of opportunities for their family. Irrespective of interpretation, readers should note that this framework is explicitly constructivist, initiated from broad social values that are refined or complemented by experience and training and implemented in economic activities, specifically businesses. Further, as readers will discover, authors in our collection attend to many questions of scale and scope of business activity and also exhibit a concern with business type and location while also expressing criticism of existing structures of support.

With this in mind, let us now consider the “ethnic” of ethnic entrepreneurship. Defining the ethnic is difficult, as the term’s definition varies with historical context. While we might be frustrated by the lack of a stable

definition of “Latino,” such stability is afforded only to physical sciences and then is often questioned in liminal spaces of analyses as physicists, chemists, and other scientists wrestle with definitional questions. Hence, for us the absence of a stable definition is particularly pernicious, as it impedes policy, itself reliant—at least occasionally—on scientific understanding of social life. However, we are not dismayed, as contingency is the rule, and our effort here extends understanding even if we cannot provide final answers to the question of who is or is not a Latino. This volume does distinguish between race and ethnicity but also works with or combines the study of race and ethnicity. Furthermore, when possible authors consider both the meso-level group processes and the macro- or structural-level processes at play that condition life chances (Valdez and Golash-Boza 2017). It is not our position that the concepts of ethnicity and race are interchangeable, as these projects often come from distinct vantage points. As noted by Valdez and Golash Boza (2017), the ethnicity paradigm is often one of inclusion, whereas the racial paradigm is one of exclusion. What we do wish to make clear here is that authors are often confined to other scientists’ definitions in the collection of data, and thus there are not only first-order questions of identity but also second-order questions of interpreting data collected in different sociohistorical circumstances and for uses that never mesh perfectly with the authors’ problem.

Thus, readers will find in these chapters a creative variety of approaches to the presence or definition of “Latino.” Some authors infer presence in one set of data from another (Robles, Morales, and Pisani, Chapter 4), others offer calculations of degree (Pisani and Guzman, Chapter 10), and still others suggest that conformity to existing definitions is sufficient to their chosen task. For us, “Latino” is in part a construction of power relationships and the imposition of categories and in part a self-construction of an “imagined community” (Anderson 1983). At the heart of each is interaction—interactions from which participants learn, impart learning to others, and change what is learned over time. Ultimately we offer no universally applicable definition, instead reminding readers that the appropriate definition will vary by the authors’ purposes, the questions they seek to answer, or the arguments they wish to evince. As such, however important the imposition of a label, equally important can be the response. We acknowledge that the ambiguity of pan-ethnic labels such as “Hispanic” and “Latino” forge categorizations constructed by a variety of stakeholders to meet their strategic interests (Mora 2014). We

are concerned here with entrepreneurship that pertains to a specific ethnic group: Latino entrepreneurs.

Clearly, in this sociohistoric moment, entrepreneurship is fundamentally economic. It is continuous with previous ways and forms of economic activity. While the economy is its own self-contained system of ideas and behaviors, it cannot be isolated from society by assumption or fiat. Instead, it is context—the relative power people have in the economy and the ongoing goals they discern—that compels them to draw on noneconomic resources from family, ethnicity, religion, or politics to help them realize goals. People bring these noneconomic foundations and tools into the relationship with their context and goals, and they experiment with options to achieve those goals. It is precisely this spirit of experimentation that enables those who are otherwise marginalized and powerless to seek opportunities for economic mobility through entrepreneurship—compare, for instance, how Spanish-language radio stations make program decisions (Morales 2002) and how Latino street vendors describe paying taxes on cash income (Morales 2012).

While entrepreneurship integrates multiple economic processes (accounting, supply chain management, logistics, etc.), for nonethnic entrepreneurs the choice and practice of these processes will mostly follow from the constraints given by other players in the economy. But for the ethnic and the otherwise “disadvantaged” entrepreneur, such constraints are only one type, another constraint being discrimination, overt or covert, in efforts to do business. The former is partly a question of skill, but the latter can be seen as a restriction or even control over behavior. Overcoming such limitations can hardly be accomplished with economic systems of ideas and behavior, and thus the ethnic entrepreneur must harness other powerful systems, such as kinship, coethnicity, politics, or religion, as resources to substitute for their inability to compete or even relate in more strictly economic playing fields.

This creativity, forced perhaps by power differentials and inequalities, has enabled ethnic experimentation with and participation in entrepreneurship. And for more than a century, scholarship on entrepreneurship has documented the creativity of the ethnic and the entrepreneurial. Strictly speaking, understanding ethnic business formation follows from the work of many scholars including W. E. B. Dubois, Louis Wirth, and Alejandro Portes. Proliferating in number since the 1980s, scholars have worked at the intersection of ethnicity and entrepreneurship. Certainly race has also been salient in this literature, and the needs of immigrants



and women can be said to have influenced practical decision making about small business in cities (Morales 2009). More recently, our understanding of entrepreneurship has been amplified as we have established the many processes and points in the formation of ethnic enterprises. Yet, it is not only sheer demographic pressure and the growth of Latinos and their economic power that is compelling this work. Indeed, the movement of Latinos into previously little-known niches, the exploration of new policy opportunities, and the demonstration of the importance of new research collaboratives also motivate our effort.

Thus, when we consider *Latino* entrepreneurship, as a historically underserved group, Latino entrepreneurs experience the inevitability of resource constraints on an uneven and distorted playing field. For any business, access to capital is a major predictor of business growth, and consequently a lack of access can be a major barrier. Still, Latino entrepreneurship in the United States has been growing at the rate of about 1 million new Latino-owned businesses every five years since 2002. Even during the Great Recession of 2008–2009, the number of Latino-owned businesses continued to grow. According to the U.S. Census Bureau, the number of non-Latino-owned businesses declined during this period, and if we eliminated all of the new businesses created by Latinos, there would have been *fewer* businesses in 2012 than there were in 2007.

These trends captured our collective imaginations in the convening of scholars—those interested in and actively researching topics within Latino entrepreneurship—first brought together by the SLEI at Stanford University in 2016. The group represents scholars from a variety of disciplines including sociology, economics, policy, and geographical sciences. Over the past three years, this faculty research group has met annually with the desire to purposefully enlarge the scale and scope of research on Latino entrepreneurship. This volume is the first effort in this research endeavor.

SLEI is a collaboration between LBAN and the Stanford Graduate School of Business that explores and expands our knowledge of the Latino entrepreneurship segment in the U.S. economy through research, knowledge dissemination, and facilitated collaboration. Since 2015, SLEI has released reports from data gathered through the annual SLEI Survey of U.S. Latino Business Owners. These national reports, designed for a wide audience of public policy makers, practitioners, media, think tanks, interest groups, and scholars, describe the current state of Latino entrepreneurship.

While the scholarship on Latino entrepreneurship is growing, SLEI has sought to accelerate and support it by providing survey data and engaging nationally prominent academics and thought leaders who study Latino entrepreneurship in one form or another. The creation of this volume came directly from the 2017 SLEI annual conference, where many participants began to leverage the data that SLEI collects to explore topics of interest and impact.

As a common theme across all chapters, the economic contributions and outcomes of Latino entrepreneurs are brought to the forefront. As Orozco notes in Chapter 13, “beyond moral or social obligations, programs are framing the support of Latino-owned entrepreneurs and firms as a national economic imperative, given their growing presence, upward trends, and significant contributions to the economy.” We take on this sentiment in the naming of this book as we seek to elevate the academic scholarship and discourse in this area.

While this volume represents an important contribution to scholarship, it also constitutes a departure from basic research. Our work is important because it unifies research with education oriented to Latino entrepreneurship. We are at the nexus of theory and practice. On the education side we have the SLEI–Education Scaling program, which provides Latino entrepreneurs the concepts, enhanced business networks, and personal mentorship and a better understanding in accessing capital resources to scale their business, create jobs, and build a stronger economy. Orozco provides an overview of the education program in Chapter 13. On the research side we have the SLEI–Research program, which leverages large U.S. census data sets and collects unique national data to synthesize trends and report out the state of Latino entrepreneurship. Orozco and Perez provide an overview of the research program in Chapter 5. In intentionally creating and relating the two, we are tracking how scholarship on Latino entrepreneurs utilizes new data while improving data collection. Our work reinforces the training offered by the SLEI–Education Scaling program, establishes new research questions, and contributes to our existing thinking on ethnic entrepreneurship.

First, we represent the reciprocal influences from society and scholarship that are at the heart of the creation of both LBAN and its Stanford collaboration, SLEI. A programmatic focus on Latino entrepreneurship did not spring whole cloth from the mind of any one individual. But we acknowledge that one person, our colleague Jerry Porras, understood and

recognized the pieces in the puzzle of scholars and related those to the pieces of the puzzle of educators in training nascent entrepreneurs and enabling existing entrepreneurs to grow. Porras recognized the importance of each component individually and the multiplied importance associated with bringing the two together in an organized and mutually reinforcing fashion. His efforts have produced changes through his scholarship and his students and in creating the LBAN/SLEI efforts.

Porras comprehended the importance to the United States of a robust entrepreneurial sector in the Latino community; however, he went a step further and put that vision into action. At our recent SLEI-Research conference, Porras prophesied his dream of building upon the current community of scholars and growing those with a research interest in this area fivefold over the next decade. With this goal in mind, we will move the current state of Latino entrepreneurship from the sidelines of scholarship to an important subfield within the entrepreneurship literature and discipline.

The need for action is clear. We have an urgent need, an *imperative*, for the engagement of Latinos in the economy. Labor force data indicate the important role that materials play in many sectors of the economy; however, the promise of the country for Latinos and for all of society is realized by participation across entrepreneurial activities in the name of a robust business sector. This book represents the first systematic effort to publish academic, programmatic, and policy-oriented work on the topic of Latino entrepreneurship. The chapters contained in this volume are beneficial for those interested in business, those desiring to become businesspeople, scholars who seek to work in this field, and public officials interested in better understanding the role that Latino entrepreneurship has to play in community and economic development.<sup>1</sup>

In this volume of Latino entrepreneurship, we take on an assets-based approach that acknowledges the historical and structural conditions that have led to the lack of intergenerational wealth among the U.S. Latino community but moves beyond that to focus on understanding the growing incidence of business creation as a course-correcting path. We explore questions that consider the economic contributions of Latinos to the U.S. economy in both rural and urban settings and within historically focused ethnic concentrations in geographic enclaves, the role of language, Latina economic mobility, and the experiences of high-growth and scaled firms,<sup>2</sup> among other thematic areas. We present many geographic scales, units of analysis, and research methods, including quantitative analysis, in-depth

interviews, and case studies that capture a wide diversity of the Latino population. Additionally, we leverage a variety of data sources, with multiple chapters analyzing data collected from the SLEI Survey of U.S. Latino Business Owners.

In Chapter 2, “Entrepreneurs from the Beginning: Latino Business and Commerce since the Sixteenth Century,” Geraldo L. Cadava provides an early historical view of Latino business and commerce, citing specific events that led to dramatic increases in the Latino population and subsequent business formation. Cadava’s comprehensive overview of the history of Latino settlement and entrepreneurship in the United States provides a vital context for the rest of the chapters by highlighting the heterogeneity of the Latino population and the changing circumstances they have encountered as they try to establish their own businesses. Chapter 3, “Latino Businesses and Commerce: A Contemporary View” by Michael J. Pisani and Iliana Perez, extends the historical period of the previous chapter, providing exemplars of notable contemporary Latino business leaders. This chapter also provides a typology with which to categorize Latino-owned businesses by client base (Hispanic vs. non-Hispanic clients) and products (Hispanic vs. non-Hispanic products). Taken together, these two chapters provide the historical context for interpreting the latest data trends and case studies of Latino and Latina entrepreneurs explored in the subsequent chapters.

In Chapter 4, “The Economic Contributions of Latino Entrepreneurs,” Robert W. Fairlie, Zulema Valdez, and Jody Agius Vallejo leverage data from two primary sources of nationally representative government data, the American Community Survey and the Survey of Business Owners, to provide a comprehensive analysis of the contributions of Latino business owners to the U.S. economy. The authors consider the contributions to business ownership, business income, total sales and receipts, employment, payroll, and exports. Chapter 5 by Marlene Orozco and Iliana Perez, “The State of Latino Entrepreneurship: SLEI Research and Findings,” extends the discussion to include other data sets that have Latino-specific variables and entrepreneurship measures. This chapter also provides an overview of the SLEI national survey, which is utilized by nearly all of the remaining chapters. Chapters 2 through 5 serve as a collective introduction to Latino entrepreneurship, providing a sweeping overview of historical perspectives and data sources.

The chapters in Part II demonstrate that the sociohistorical conditions of a particular region matter for business formation and growth. Given the

divergent economic, political, and demographic conditions across regions on the one hand and the heterogeneity of Latino communities living in those regions on the other, these perspectives situate the historical context of the previous section. In Chapter 6, “Latino Entrepreneurship in Rural America,” Barbara Robles, Alfonso Morales, and Michael J. Pisani use a variety of data sources, including data from the Internal Revenue Service, the American Community Survey, SLEI, and the U.S. Department of Agriculture to determine the economic contributions of Latino farm entrepreneurs. In Chapter 7, “Shaping Success: Exploring the Evolution of Latino Businesses in Three Major U.S. Counties,” Edna Ledesma and Cristina Cruz take on the three most populous Latino counties (in the Miami, Los Angeles, and Houston areas) to explore nuances in the scale of businesses and industry sectors of the different regions. Given the historical patterns of different Latino groups in these counties, Cadava’s history in Chapter 2 provides the necessary contextual information with which to interpret these findings. John Sargent and Linda Matthews in Chapter 8, “Mexican American Founder Narratives at High-Growth Firms on the South Texas–Mexican Border,” take a deep dive into this region by exploring high-growth firms through semistructured interviews in the deep South Texas region. The bilingual, bicultural nature of the borderlands fosters the success of these high-growth firms.

The authors in Part III investigate the social and economic factors that facilitate or impede Latino entrepreneurship. As John Sargent and Linda Matthew demonstrate in Part II, regional and larger opportunity structures intersect with business owner characteristics. Chapter 9, “Social Network Utilization among Latino-Owned Businesses,” extends this approach and analyzes the role of enclaves and the social networks within to determine business outcomes. In this chapter Elsie L. Echeverri-Carroll and Marie T. Mora use the large national SLEI survey to overcome previous data limitations to explore this relationship. Pursuant to the individual as the unit of analysis, Michael J. Pisani and Joseph M. Guzman explore the relationship of immigrants and their descendants as it relates to business success in Chapter 10, “Acculturation and Latino-Owned Business Success: Patterns and Connections.” Bilingualism and language use can present challenges or opportunities depending on the larger context. Chapter 11 by Alberto Dávila, Michael J. Pisani, and Gerardo Miranda, “The Business of Language: Latino Entrepreneurs, Language Use, and Firm Performance,” explores

these theories through analysis of the SLEI data. Part III concludes by considering the experiences of Latinas in Ruth E. Zambrana, Leticia Lara, Bea Stotzer, and Kathleen Stewart's Chapter 12, "How Can Entrepreneurship Serve as a Pathway to Reduce Income Inequality among Hispanic Women?" The supply of Latino entrepreneurs must include Latinas inclusive of the intersecting roles that structure aspirations and practices.

Part IV considers practice and policy as they relate to business programs and Latina practitioners' perspective on capital. In Chapter 13, "SLEI-Education Scaling Program: A Business Program of 'National Economic Imperative,'" Marlene Orozco explores the changing discourse of Latino entrepreneurship and the experiences of entrepreneurs who go through the SLEI-Education program through in-depth interviews. To provide next steps with possible actions and policies as a practitioner with over 25 years in senior management and investment management, Monika Mantilla brings forth the "Gacela Theory" in Chapter 14, "The G.R.E.A.T Gacela Theory: Increasing Capital and Conditions for Success for High-Potential Latino Entrepreneurs Capable of Transforming Our Economy and Our Country." In this chapter, Mantilla reviews the current state of capital access for Latino-owned businesses and the resources required to promote greater opportunity to next stage growth.

Contributions to this volume begin to reveal how public policy shapes the decision-making environment of entrepreneurship in particular industries as well as particular places. Each contributor in this volume polishes a facet of our understanding of Latino entrepreneurship. Together, we characterize and illustrate a variety of disciplinary approaches to understanding Latino entrepreneurship.

## NOTES

1. This is not to deny the importance of and growth in social entrepreneurship among Latino nonprofit organizations, yet this topic is not our concern here.
2. Scaled firms are those that generate at least \$1 million in annual revenue and have the potential to greatly contribute to the U.S. economy. We focus on this critically understudied segment of businesses, as previous work has commonly associated ethnic entrepreneurship to small informal and peripheral economies. The data explored in this volume show otherwise.

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