



Latino Business Ownership:

Contributions and Barriers for U.S.-born and Immigrant Latino Entrepreneurs

By Robert W. Fairlie, Ph.D., Economic Consulting

64 pages. Under contract number SBAHQ-16-Q-0061.

January 2018

No. 438

Large differences in business ownership rates and income exist between minority groups and non-minorities. Those differences have persisted over time and may be an inhibitor of economic growth. This study evaluates business ownership among native-born and immigrant Latino men and women and compares them to non-minorities. It uses statistical techniques to understand how much of these disparities can be attributed to differing population characteristics, like age, wealth and educational attainment.

Overall Findings

The data clearly show the large impact Latino business owners have on the economy. Roughly 541,000 business owners are U.S.-born Latinos, with an additional 1.2 million immigrant Latino business owners (**Table 1**).

Table 1. Business Ownership Rates and Income by Demographic Group (2015)

Group	U.S.-born Latinos	Immigrant Latinos	Non-Latino Whites
Number of business owners	541,000	1,151,000	8,278,000
Percent of population	3.5%	7.3%	6.8%
Average business income	\$47,400	\$31,000	\$66,600
Total business income	\$25.7 billion	\$35.7 billion	\$551.5 billion

Combined, the study shows Latino business owners earning \$61.3 billion in business income. However, the report also shows the large disparities in both Latino self-employment rates and business income as compared to non-minorities. For example, 3.5 percent of U.S.-born Latinos are self-employed compared to 6.8 percent of non-Latino whites. In business income, both immigrant Latinos and U.S.-born Latinos earn less than non-Latino whites, \$31,000, \$47,400 and \$66,600 respectively.

The report analyzes population characteristics like wealth, education, and age to see if these factors explain some of the business ownership and income differences experienced by Latinos. Due to the differences between the genders and migration status in business ownership and income, all of these groups are compared separately with their non-minority counterpart. For example, U.S.-born male Latinos are compared to non-Latino white males. Therefore the analysis compares four groups of Latino business owners to non-Latino white owners- U.S.-born males, U.S.-born females, immigrant males and immigrant females.

Ownership Rates

The study first evaluates the differences in ownership rates for U.S.-born and immigrant Latinos and compares them to non-Latino whites. Immigrant Latino males have almost equal business-ownership rates as non-Latino white males, 9.0 to 9.1 percent. U.S.-born Latino males have an ownership rate of 4.5 percent. Female business ownership is smaller overall. Immigrant Latino women have a higher business ownership rate than non-Latino white women, 5.4 percent versus 4.6 percent. U.S.-born Latino

women have the lowest business ownership rate at 2.5 percent (Table 2).

Table 2: Business Ownership Rates by Demographic Group (2015)

	U.S.-born Latino	Immigrant Latino	Non-Latino White
Male	4.5%	9.0%	9.1%
Female	2.5%	5.4%	4.6%

Using a statistical method called “decomposition,” the report evaluates the most important population characteristics that explain differences between Latino groups’ and non-minorities’ business ownership rates. In the case of U.S.-born Latino and non-Latino white males, the most important factors explaining the difference in business ownership rates are age and wealth. In general, business ownership is higher among older and wealthier individuals. The younger age distribution of U.S.-born Latino males compared to non-Latino white males explains 34 percent of the difference, and lower personal wealth explains 16 percent.

Age and wealth are also important factors in explaining the differing business ownership rates between U.S.-born Latino women and non-Latino white women. Lower wealth explains 13 percent of the difference while an average younger age explains 30 percent. Unlike for male Latinos, education is a factor for female Latinos, explaining 5.6 percent of the business ownership difference.

Both male and female U.S.-born Latinos are also shown to live in “favorable” regions of the country that have higher-than-average business ownership rates. If they had the same geographic distribution across the country as non-Latino whites, lower ownership rates would be expected.

Immigrant Latino men and women have equal or higher rates of business ownership compared to non-Latino whites. Since the differences are very small, the report provides limited conclusions for these groups.

Business Income

Second, the report looks at the differences in business income, a potential indicator of business success and an important wealth generator for minority groups. Male Latinos, U.S.-born and immigrant, earn less business income than non-Latino white business owners. Male U.S.-born Latino business owners earn more, on average, than their immigrant Latino counterparts (Table 3). Female business owners in all three groups earn less, on average,

than male owners. U.S.-born Latino women earn more than immigrant Latino women business owners.

The study’s decomposition technique evaluates which population characteristics explain the differences in average business income as compared to non-minorities. On average, business income is higher among well-educated and older owners.

Lower education is the largest factor contributing to the smaller business income of U.S.-born Latino men, as compared to non-Latino white men, accounting for 30 percent of the difference. Relative youth and concentration in lower-earning industries are smaller factors, accounting for 11 and 5 percent respectively. For U.S.-born Latino women, education and age are much larger factors, accounting for 56 and 23 percent of the difference, respectively. However, again, a favorable regional distribution for female Latino business owners increases their average business income.

Immigrant Latinos face a large business income gap when compared to non-Latino white business owners. Interestingly, the study shows immigrant Latinos’ age being a smaller factor for this difference and education being a much large contributor. For immigrant male Latinos, their average age explains only 1 percent of the difference, while for female immigrant Latinos it is a small positive factor. Lower educational attainment explains 43 and 53 percent of the business income difference for immigrant Latino men and women, respectively. Concentration in lower-earning industries is also an important factor, accounting for 7.5 and 11 percent of the difference for immigrant Latino men and women, respectively.

Table 3: Average Business Income by Demographic Group (2015)

	U.S.-born Latino	Immigrant Latino	Non-Latino White
Male	\$53,600	\$36,300	\$77,600
Female	\$36,100	\$21,500	\$44,800

Data and Methods

The report relies on the U.S. Census Bureau’s American Community Survey (ACS). The ACS is a nationally representative survey that provides over 9 million observations of working-age adults (ages 20-64). The survey includes data on demographics, location, business ownership, income, hours worked and immigration status. The large sample allows researchers to perform robust statistical

tests on the data, like the decompositions performed in this report. The ACS uses the term Latino and Hispanic interchangeably, and defines it as a person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race.

For the report, business ownership is defined as those who identify as “self-employed” either in an incorporated or unincorporated business. It is also limited to only those of working age and who report working 15 or more hours in their business. The purpose of these conditions is to eliminate those who are only casual sellers of services or are very small-scale businesses.

Business income is self-reported in the ACS data. For the purposes of this report, self-employment income and salary income are combined for business owners and used as “business income.” This is due to incorporated business owners who may report their income as salary since it is through their business.

The report uses the ACS microdata to compare the average characteristics of the differing groups and perform a decomposition technique. The decomposition allows one to estimate the contribution of separate characteristics to differences in business ownership rates and income. The decomposition used is called the Blinder-Oaxaca decomposition.

Consistent with the Office of Advocacy’s data quality guidelines, this report was peer reviewed. More information on the process can be obtained by contacting the director of economic research at advocacy@sba.gov or 202-205-6533.

Discussion

The study’s findings show important factors that affect Latino business ownership rates and income. For business ownership, U.S.-born Latinos are hindered by their lack of wealth and relatively young age. Business income for Latinos, both immigrant and U.S.-born, is largely affected by their lower levels of education.

These findings can be informative for policy considerations. Specifically, policies aimed at wealth accumulation and access to capital may support business ownership among U.S.-born Latinos. Also, since the younger age of U.S.-born Latinos is a large factor, tracking their business ownership as they age will be important. If the average age of Latinos increases, but their business ownership stagnates, then other outside factors may be limiting ownership.

Increasing educational opportunities among both immigrant and U.S.-born Latino business owners can help increase their business income. Successful self-employment and business ownership can help address long standing wealth disparities between racial and ethnic groups. Further, improving business income among Latino

business owners can be an important source of future U.S. economic growth.

Finally, while the study provides new findings on the importance of different population characteristics on business ownership and outcomes, it cannot explain all the causes. The decompositions for business ownership explain 42 and 36 percent of the total difference for U.S.-born Latino men and women, respectively. For business income, the decomposition explains about 40 percent for Latino men, and 50-60 percent for Latino women. While these are sizeable amounts, it leaves more research to be done to understand the differing entrepreneurial outcomes of racial/ethnic groups.

Related Research

Part of the Office of Advocacy’s statutory mission includes researching minority businesses and their owners. Advocacy regularly releases reports addressing the state of minority business owners and potential barriers.

- “Minority Business Ownership - Data from the 2012 Survey of Business Owners,” Michael McManus, September 2016, go.usa.gov/xn54s. This Issue Brief evaluated the state, industry distribution and characteristics of minority-owned businesses.
- “The Arrival of the Immigrant Entrepreneur,” Daniel Wilmoth, October 2016, Trends in Entrepreneurship series, go.usa.gov/xn54H. This looked at immigrant entrepreneurs and showed a large increase in self-employed immigrants and a larger share of self-employed being born aboard.
- “Explaining the Emergence of the Immigrant Entrepreneur,” January 2017, *ibid*, go.usa.gov/xn54F. This showed the immigrant population’s age being a key factor for their share of U.S. self-employment.

READ THE FULL REPORT ONLINE

This report is available on the Office of Advocacy’s webpage at www.sba.gov/advocacy.

To stay informed of Advocacy’s future research, visit www.sba.gov/content/connect-us-0. By subscribing to the Small Business Regulation & Research category, you can choose to receive email notices of Advocacy research, news releases, regulatory

