

BBR Bureau of
Business Research

Survey of
TEXAS HISPANIC-OWNED BUSINESSES
with **PAID EMPLOYEES**



This report was funded by the PRESIDENT'S OFFICE of THE UNIVERSITY OF TEXAS AT AUSTIN, THE HERB KELLEHER CENTER FOR ENTREPRENEURSHIP at the MCCOMBS SCHOOL OF BUSINESS, and the EWING MARION KAUFFMAN FOUNDATION • For the TEXAS ASSOCIATION OF MEXICAN AMERICAN CHAMBERS OF COMMERCE (TAMACC) • Conducted by the BUREAU OF BUSINESS RESEARCH at the IC² INSTITUTE of THE UNIVERSITY OF TEXAS AT AUSTIN • Under the supervision of DR. ELSIE ECHEVERRI-CARROLL and DR. BRUCE KELLISON •

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The Leading Hispanic Business Organization in Texas Since 1975

Survey of
Texas Hispanic-owned Businesses
with Paid Employees

Acknowledgments 5

About this Report 6

Executive Summary 7

 Part 1: Background Data from the 2007 Business Census 7

 Part 2: Results from the BBR Survey of Hispanic Employers 8

 Other Key Findings 10

 Conclusions: Improving Business Opportunities and Outcomes for HOBs in Texas 11

Part 1: Background Data from the 2007 Business Census 12

 HOBs represent a large and growing segment of the economic environment in Texas 12

 HOBs in Texas lag in all economic indicators 12

 Why do HOBs lag behind mainstream businesses? 14

 Most HOBs in Texas do not have paid employees 15

Part 2: Results from the BBR Survey of Hispanic Employers 17

 Characteristics of Texas HOBs with paid employees 17

 Demographics of the Hispanic business owner 21

 Survey participants’ opinions on perceived training needs 23

 Survey participants’ opinions on perceived fairness in procurement opportunities 25

 Other key findings 28

Conclusions: Improving Business Opportunities and Outcomes for HOBs in Texas 31

Bibliography 33

Appendix A: Examples of University of Texas at Austin Programs Related to Hispanics 35

Appendix B: Sample Characteristics and Survey Methodology 36

Appendix C: Selected Insights from Hispanic Business Owners 39

This report was funded by the PRESIDENT’S OFFICE of THE UNIVERSITY OF TEXAS AT AUSTIN, THE HERB KELLEHER CENTER FOR ENTREPRENEURSHIP at the MCCOMBS SCHOOL OF BUSINESS, and the EWING MARION KAUFFMAN FOUNDATION • For the TEXAS ASSOCIATION OF MEXICAN AMERICAN CHAMBERS OF COMMERCE (TAMACC) • Conducted by the BUREAU OF BUSINESS RESEARCH at the IC² INSTITUTE of THE UNIVERSITY OF TEXAS AT AUSTIN • Under the supervision of DR. ELSIE ECHEVERRI-CARROLL and DR. BRUCE KELLISON •

Acknowledgments

We would like to thank all of the Hispanic-owned businesses that participated in the survey. The information they provided has yielded valuable insights, and we anticipate that this report will be useful to the survey participants as well as to other business owners who plan to start or expand their businesses. Moreover, we hope that the information provided in this report guides policymakers and Hispanic organizations to develop policies and strategies that will help Hispanic businesses scale up and create more jobs. The Bureau of Business Research of the IC² Institute at The University of Texas at Austin is pleased to have produced this study in order to help Hispanic business owners succeed and continue to contribute vital strength to the Texas economy.

Sofia Ayala and Yeolib Kim, BBR Graduate Research Assistants, provided invaluable database skills and statistical analysis throughout the project, and their significant contributions are gratefully acknowledged. Veronica Inchauste and her team at the Office of Survey Research at the Annette Strauss Institute, University of Texas at Austin, performed the survey with their typical professionalism and patience. Jon Wainwright of NERA generously helped construct the sample used here. Marco Bravo contributed his vast knowledge of the mechanics of entrepreneurship during interviews with founders of Hispanic-owned firms for the Insights section of the report. The Kauffman Foundation and the Herb Kelleher Center for Entrepreneurship at the McCombs School of Business supplied financial support and intellectual guidance and were true strategic partners throughout the data collection and analysis process.

The Bureau of Business Research at the IC² Institute, The University of Texas at Austin, was founded in 1926 “to promote the industrial development of Texas and gather important business data to be used by businessmen locating industry in Texas.” Today, the Bureau’s publications and research focus on high technology, entrepreneurship, and international trade (especially with Mexico), as well as other sectors of economic and policy relevance for the State. Please visit our website at www.ic2.utexas.edu/bbr for more information on our activities, services, and research.

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About this Report

The *Survey of Texas Hispanic-owned Businesses with Paid Employees* was sponsored by the Office of the President of The University of Texas at Austin, the Herb Kelleher Center at the McCombs School of Business, and the Kauffman Foundation. The survey was directed by the Bureau of Business Research (BBR) at the IC² Institute, The University of Texas at Austin. The Principal Investigators were Dr. Elsie Echeverri-Carroll and Dr. Bruce Kellison. The ambitious scope of this Survey of Texas Hispanic-Owned Businesses with Paid Employees explored:

- Business owner demographics
- Business characteristics
- Training needs
- Ease in doing business with the government and the private sector.

The insights and information gained through this study present important implications for public policy, education, economic development, and wealth creation in Texas.

Eight databases and directories with a combined non-duplicative total sample size of 23,805 Hispanic firms in Texas were used as the survey's sampling frame, from which a final random sample of 12,306 Hispanic businesses was selected to receive a mailed questionnaire in the summer of 2011. A total of 3,592 mailed questionnaires were received back, for a response rate among HOBs of 27.2 percent. The vast majority of the completed questionnaires—2,811 surveys (80 percent)—were from Hispanic-owned businesses (HOBs) that are *employer* firms, whereas only 435 surveys were returned by HOBs with no paid employees, and only 15 by HOBs that did not report how many employees they have.¹

We analyzed the questionnaires from the employer firms. Thus, the BBR survey is representative of *Hispanic-owned businesses with paid employees* in Texas. Importantly, these businesses account for most of the economic activity (sales, employment) of HOBs in the state. Indeed, U.S. Census data from the 2007 Survey of Business Owners (SBO) indicate that employer firms made up only 9 percent of Hispanic-owned businesses but accounted for 74 percent of the sales of Hispanic-owned businesses in Texas in 2007. Our analysis is presented in two parts:

- *Part 1* provides background information on Hispanic-owned business trends from the 2007 U.S. Census Bureau Survey of Business Owners
- *Part 2* contains results from the BBR survey on the characteristics of Hispanic-owned businesses with paid employees in Texas.

An executive summary precedes the detailed analysis.

¹ A total of 3,592 questionnaires were received from survey respondents. Of those, 2,811 were from HOB employer firms, 435 were from HOB non-employer firms, 15 were from HOBs that did not report the number of employees, 233 were from non-HOBs, and 98 could not be classified in any of the three previous groups because they responded after December 2011 or deleted the Case ID.

Executive Summary

Understanding the training and market access challenges faced by Hispanic-owned businesses in Texas will help organizations like TAMACC work closely with the public and private sectors in identifying strategies to help these firms. Results from the BBR survey suggest that Hispanic-owned businesses with paid employees in Texas especially need strategies that help them:

- increase business training in management and communication skills
- improve access to public- and private-sector customers

Here we present a summary of the main ideas emerging from this study.

Part 1: Background Data from the 2007 Business Census

Data on Hispanic-owned businesses (HOBs) in the United States are collected by the Census Bureau every five years in the Survey of Business Owners (SBO). Results from the latest survey revealed the following trends:

HOBs represent a large and growing segment of the economic environment in Texas

- In 2007, Hispanic-owned businesses accounted for 20.7 percent of all businesses in Texas—the second-largest percentage behind that of non-Hispanic White-owned firms, which accounted for 62 percent of all businesses in Texas. The predominance of the latter group is a reason why non-Hispanic, White-owned firms are often referred to as *mainstream businesses*.²
- The *number* of Hispanic-owned businesses in Texas increased from 319,340 in 2002 to 447,589 in 2007, a 40.2 percent increase that also represented an increase in the *percentage* of Hispanic-owned firms in Texas (from 18.4 to 20.7 percent) among all businesses.

HOBs in Texas lag in all economic indicators

- Hispanics created about 9 firms for every 100 Hispanics 20-64 years of age in Texas. If they would have reached parity with non-Hispanic Whites (about 19 firms for every 100 non-Hispanic Whites 20-64 years of age) in Texas, Hispanic firms would have numbered 769,000 in 2007, not 447,589. So even while Hispanic-owned businesses are growing in Texas, the rate of business creation within the working-age Hispanic population still lagged behind that of non-Hispanic Whites.
- The number of Hispanic-owned businesses in Texas (and the nation) since 2002 has increased rapidly. Despite this increase, the 2007 SBO data showed that Hispanic-owned businesses lagged in all economic indicators when compared to performance values observed in mainstream

² In this study, we were guided by the definition of “Hispanic” used by the Census Bureau. The term “Hispanic” in this study refers to a “person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race” (see <http://www.census.gov/prod/cen2010/briefs/c2010br-02.pdf>, p. 2). We used the term “White” as a proxy for non-Hispanic and non-minority and do not mean to indicate a particular race or ethnic group. This usage is common in the academic literature on minority-owned firms.

businesses in Texas. Average gross receipts for Hispanic-owned businesses in Texas were one-fourth those of the receipts for mainstream firms, and average employment and payroll size for Hispanic firms were half of those for mainstream firms.

Why do HOBs lag behind mainstream businesses?

- Previous studies have found that Hispanics' lower levels of assets and education, lower percentage of parents with business experience, and smaller networks than Whites were important factors in explaining Hispanic/White differences in business performance.
- Data from the BBR survey (see part 2) showed that ineffective oral and written communication with customers, employees, and suppliers as well as limited access to procurement opportunities could also be factors leading to the observed performance of Hispanic-owned businesses.

Most HOBs in Texas do not have paid employees

- Census data from the 2007 SBO showed that out of the 447,589 HOBs in Texas, only 41,283 of them have paid employees. These employer firms, which employ 395,673 workers, accounted for only 9 percent of all Hispanic-owned businesses in Texas. But, as already indicated, with 74 percent of HOB sales, they represented most of the economic activity of Hispanic-owned businesses in the state.
- But is it the case that firms without employees will at some point start hiring? Previous studies showed that non-employer firms rarely become businesses with paid employees.³ If this is the case, *scalability* of Hispanic-owned businesses *with paid employees* (not all HOBs) might be necessary for job creation.

Part 2: Results from the BBR Survey of Hispanic Employers

A comparative analysis of data on Hispanic business owners with paid employees from the SBO and the BBR survey revealed the following trends:

Characteristics of Texas HOBs with paid employees

- The distribution of firms by size in the BBR survey closely mirrored that in the 2007 SBO. For example, the 2007 SBO showed that most Hispanic businesses with paid employees (57 percent) have between 1 and 4 employees. A similar trend was observed in the BBR survey, where 47 percent of Hispanic businesses with paid employees have between 1 and 4 employees. Thus, the BBR sample appeared reasonably representative of Hispanic employer firms in Texas according to number of firm employees.

³ Although these studies do not differentiate by owners' ethnicity, there is no reason to believe that a similar situation does not apply to Hispanic businesses.

- In accordance with popular belief and consistent with results from previous studies, most businesses with paid employees created by Hispanics were constituted as corporations (57 percent). A large percentage of these businesses were started from scratch (81 percent).
- The BBR survey showed that 73 percent of Hispanic-owned businesses have fewer than 25 employees.
- The survey also revealed a scalability problem, as most of the surveyed businesses remain small even after many years of operation. Indeed, 80 percent of young firms (5 years or less) have fewer than 10 employees, while 66 percent of mature firms (16 years or more) continue to have fewer than 10 employees. These results support findings from a previous study commissioned by the Kauffman Foundation that identified *scalability* as a major problem confronted by Hispanic-owned businesses.

Demographics of the Hispanic business owner

- More than 63 percent of the business owners in the BBR survey had at least some college education. These data corroborate previous findings that education was highly correlated with business ownership, especially among the Hispanic population.
- Hispanic owners of businesses with paid employees had higher education achievements than the general Hispanic population. For instance, in Texas, 77 percent of Hispanic employers had some kind of post-high-school education, whereas 34 percent of Hispanics (25 years or older) overall had post-high-school education.
- Most Hispanic owners of businesses with paid employees also had many years of business experience; indeed, 56 percent of survey participants had more than 20 years of experience in their current business.
- Business experience seemed to be highly correlated with Hispanic business owners' perceptions of profits. When the number of survey responses from Hispanic-owned businesses was divided into those owned by Hispanics with five or fewer years of business experience and those with six or more years of experience, a larger percentage of the more experienced owners (26 percent) tended to report above-average profits than those in the group with less experience (20 percent).
- As is well-documented in the literature on minority-owned businesses, the BBR survey showed that first-generation immigrant business owners accounted for the largest percentage of the responses (32 percent), closely followed by second-generation business owners (30 percent). Moreover, Mexican-origin business owners accounted for a very large percentage (85 percent) of the BBR survey, as might be expected for Texas.

Survey participants' opinions on perceived training needs

- As indicated, most of the respondents whose businesses had paid employees already have high levels of education and many years of business experience; however, many of them indicated that their employees need training.

- When asked to list their top three business training needs, survey respondents selected team management and leadership (58 percent), business/customer relations (27 percent), and written and oral communication (27 percent) as their top two training needs.

Survey participants' opinions on perceived fairness in procurement opportunities

- A majority—66 percent—of the BBR survey participants believed that understanding the political system (local, state, and federal) was a critical factor in the success of their businesses. Indeed, only 10 percent disagreed or strongly disagreed with this statement, whereas the rest did not have an opinion or were neutral.
- When asked if Hispanic-owned firms have less access than other firms to important decision makers on government contracting (procurement) opportunities, 49 percent agreed or strongly agreed. In contrast, 18 percent of the BBR survey participants disagreed or strongly disagreed with this statement.
- More BBR survey participants agreed/strongly agreed (36 percent) than disagreed/strongly disagreed (24 percent) that HOBs are unfairly excluded from participating in government contracting (procurement) opportunities more often than non-Hispanic-owned businesses.
- The private sector was the most important customer for Hispanic-owned businesses with paid employees in Texas. Indeed, 81 percent of the BBR survey participants indicated that they had done business with the private sector in the past year. This was in contrast to those who indicated they had done business with local government (48 percent), state government (37 percent), and/or federal government (34 percent).
- More survey participants agreed/strongly agreed (34 percent) than disagreed/strongly disagreed (23 percent) that HOBs were unfairly excluded from participating in private sector contracting (procurement) opportunities more often than non-Hispanic-owned businesses.
- In sum, 34 percent of survey participants agreed/strongly agreed that they did not have equal opportunities in the *private sector*, which is similar to their response regarding opportunities in the *public sector* (36 percent). However, a much larger percentage (49 percent) agreed/strongly agreed that they did not have equal opportunities in *accessing important decision makers in government contracting*.

Other Key Findings

Hispanic-owned businesses hire mainly Hispanics

- More than 80 percent of the survey participants indicated that they hire mainly Hispanics or an equal mixture of Hispanics and non-Hispanics. These findings were in line with previous Census evidence that business owners tended to hire employees from their own ethnic group.

Hispanic-owned businesses have a diversified customer base

- Most Hispanic-owned businesses with employees in Texas had an ethnically diversified customer base. When asked whether the majority of the customers of their businesses were primarily

Hispanic, an equal mixture of Hispanic and non-Hispanic, or primarily non-Hispanic, 46 percent of the survey participants said *equal mixture* and 28 percent said *primarily non-Hispanic*. And while it was true that first-generation Hispanic business owners tended to rely more on the Hispanic market (30 percent) than do fourth-generation Hispanic business owners (21 percent), the nine-point percentage difference between these two groups gives weak support to the “customer enclave” hypothesis, which argues that Hispanic business owners tend to rely mainly on the Hispanic market.

Conclusions: Improving Business Opportunities and Outcomes for HOBs in Texas

The survey results presented in this report highlight the need for policymakers and business leaders together to address four important goals for Hispanic-owned firms in Texas:

- ❖ *Goal 1:* Grow HOBs to scale.
- ❖ *Goal 2:* Address HOBs’ training needs.
- ❖ *Goal 3:* Transfer knowledge of HOBs’ best practices to the next generation of Hispanic entrepreneurs.
- ❖ *Goal 4:* Track the health of the Hispanic business community in Texas.

While particular strategies to achieve these goals are beyond the scope of this study, it is hoped that this report will result in a better understanding of the landscape of Hispanic-owned firms that are creating job opportunities in the state. The insights and knowledge contained in the report have important implications for public policy, education, and economic development as well as wealth creation in Texas.

Part 1: Background Data from the 2007 Business Census

Data on Hispanic-owned businesses (HOBs) are collected by the United States Census Bureau every five years in the Survey of Business Owners (SBO). 2007 SBO is the latest data available for this review.

HOBs represent a large and growing segment of the economic environment in Texas

SBO data shows that both the *number* and the *percentage* of HOBs in Texas increased between 2002 and 2007. The number of HOBs rose from 319,340 to 447,589 (a 40.2 percent increase), whereas HOBs' share of all firms in Texas rose from 18.4 to 20.7 percent. In 2007, HOBs accounted for 19.8 percent of all firms in the United States and 20.7 percent of all firms in Texas. HOBs accounted for the second largest share behind that of non-Hispanic White-owned firms, which accounted for 62 percent of all businesses in Texas. The predominance of the latter is a reason why non-Hispanic White-owned firms are often referred to as *mainstream businesses*.

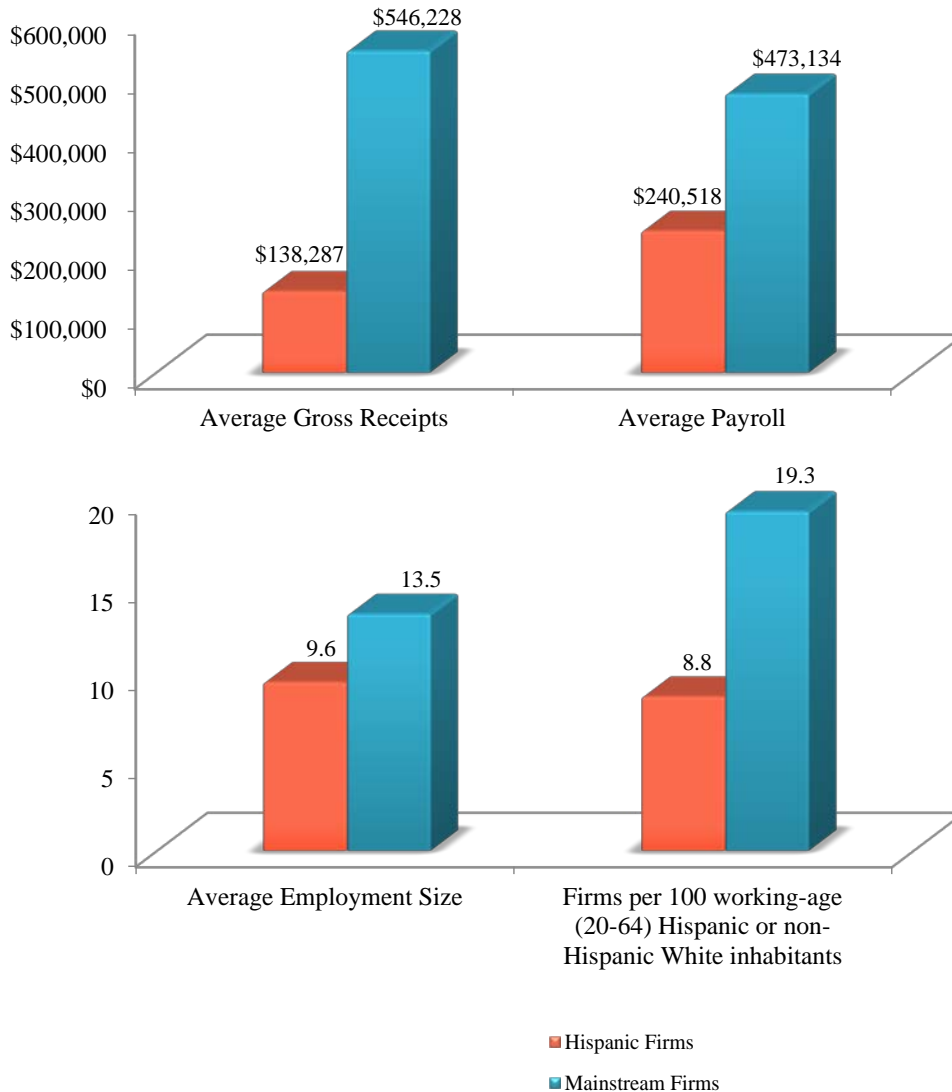
HOBs in Texas lag in all economic indicators

Mirroring national trends, the number of HOBs in Texas grew significantly in recent years; however, data from the 2007 SBO indicated that they still lag behind in all economic indicators. As observed in figure 1, on average these firms were smaller in size of gross receipts, employment, and payrolls than mainstream firms:

- *Average gross receipts* of HOBs were about \$138,287 compared to \$546,228 for mainstream employer firms in the state.
- *Average payroll* of Hispanic employer firms was about \$240,518 compared to \$473,134 for mainstream employer firms
- *Average employment* of Hispanic employer firms was 9.6 employees compared to 13.5 employees for mainstream employer firms.

Figure 1 also shows that Hispanics still have a lower rate of business ownership in Texas than non-Hispanic White-owned firms. About 9 in every 100 Hispanic adults (20-64 years old) owned a business. The prevalence rate for Whites 20 years or older was 19 per 100, more than twice the rate for Hispanics. Proportionally, it means that Whites in Texas were likely to start more than two businesses for every business started by Hispanics.

Figure 1. Characteristics of Hispanic and mainstream firms in Texas



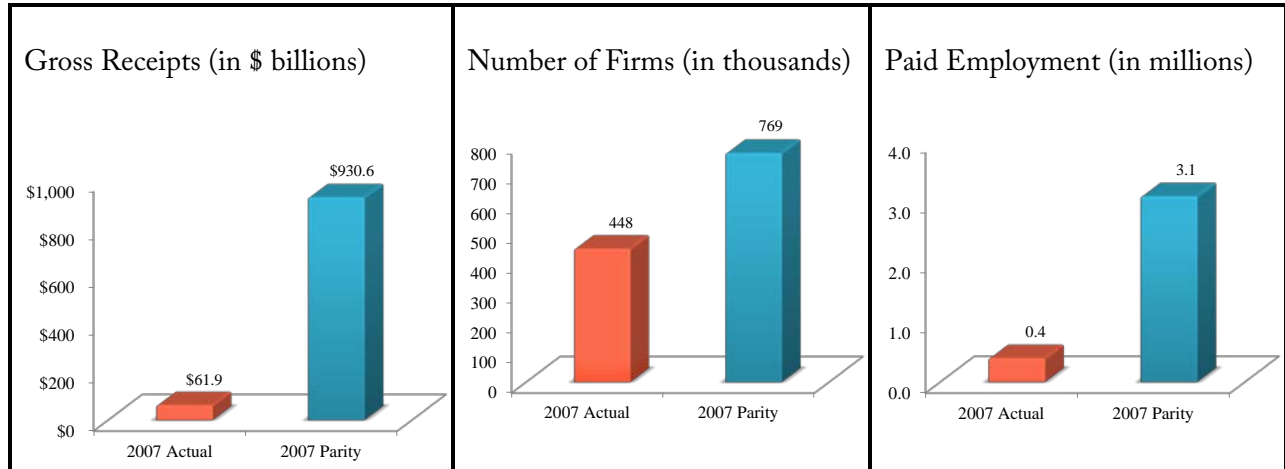
Source: Data on firms are from the 2007 Survey of Business Owners; working-age population estimates are from the Texas State Data Center.

Entrepreneurial parity would be achieved when the ratio of Hispanic firms to working-age Hispanic population in Texas (about 9 firms for every 100 Hispanics ages 20-64) equals the ratio of non-Hispanic White-owned firms to working age non-Hispanic White population (about 19 firms for every 100 non-Hispanic Whites ages 20-64) in the state.

Figure 2 shows that if Hispanic-owned firms would have reached parity with the rate of business creation among Whites in the state, HOBs would have numbered 769,000 rather than the 447,589 that actually existed. In addition, with parity, collectively HOBs would have employed over 3.1 million workers and grossed over \$930.6 billion in receipts in 2007.

It is important to note that, while HOBs in Texas are growing, this growth rate is not keeping pace with the higher rate of overall Hispanic population growth in Texas.

Figure 2. Entrepreneurial parity for Hispanic-owned businesses in Texas, 2007



Sources: 2007 Survey of Business Owners and Texas State Data Center.

Why do HOBs lag behind mainstream businesses?

This section provides a review of the literature on the causes for Hispanics' lower rates of business ownership and weaker performance on average than mainstream businesses. It also advances other possible causes identified in the BBR survey, in particular, a lack of managerial education and possible cultural barriers to effective communication with customers, employees, and suppliers.

In a chapter of the 2005 *Small Business Economy* report produced by the Small Business Administration, Robert Fairlie reviewed the state of the literature in answering two questions: What are the causes of lower business ownership among Hispanics in the United States (business creation)? And why are Hispanic-owned businesses less successful than White-owned businesses? That is, why do Hispanic firms hire fewer employees and have lower payrolls and sales? This study also noted that Hispanic firms tend to have lower profits and higher failure rates than White-owned firms (Fairlie 2005).

Fairlie noticed that similar variables explained differences in business creation and business outcomes between Hispanic and White-owned firms, including low levels of assets and lower levels of education and language ability that are limiting opportunities for Hispanics to grow their businesses.⁴ He also noted that the probability of owning a business was higher among children of business owners, and that Hispanics were less likely than Whites to have had fathers who owned their own businesses. Moreover, if

⁴ Studies use different measures of assets or net worth, including inheritances, gifts, lottery winnings, insurance settlements, home ownership, and home prices. A study by the Pew Hispanic Center finds that overall, the net worth of White households was eight times greater than that of Hispanic households (Kochhar 2004).

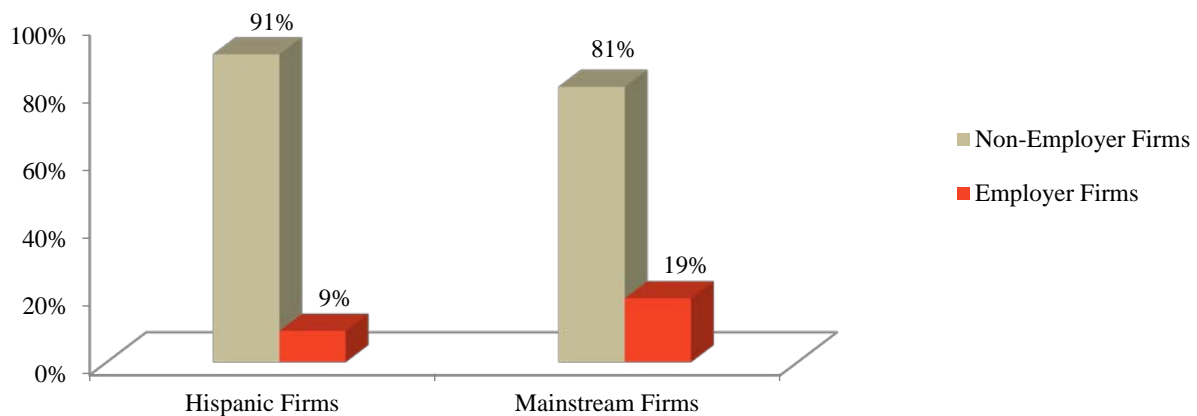
Hispanic firms had limited access to business, social, or family networks, or have smaller networks, they may be less likely to create successful businesses. Finally, labor markets, lending, and consumer discrimination may also explain business success differences across ethnic and racial groups.

The BBR survey found that lack both of management education and of skills to communicate effectively in oral, written, or other forms could also explain the lower performance of HOBs, especially those with paid employees. These results were in line with previous studies that identified lack of business training/education and differences in how cultural values affect the management of these businesses as major barriers for HOBs (Dean, Feldman, and Koberg 1991; Jones and Tullous 2002; Young 2002).

Most HOBs in Texas do not have paid employees

Most U.S. companies do not have any paid employees, and not surprisingly, the same is true for minority-owned firms. But while 78.8 percent of firms in the country did not have paid employees in 2007, the national percentage of Hispanic-owned firms without paid employees (89 percent) was higher (Julian Samora Research Institute, 2011). A similar underrepresentation of employer firms among Hispanic-owned businesses was observed in Texas. Figure 3 shows that in 2007 only 9 percent of the Hispanic firms in Texas had paid employees, half the rate for mainstream firms (19 percent) in the state. Moreover, Hispanic firms with paid employees accounted for only 4.5 percent of total private sector employment in Texas in that year.

Figure 3. Percentage of non-employers and employers among Hispanic and mainstream firms in Texas



Source: 2007 Survey of Business Owners.

The SBO collects data from both employers and non-employers in Texas. *Employer businesses* are firms with paid employees, including workers on the payroll but excluding sole proprietors and partners. *Non-employer businesses* are firms without paid employees, including sole proprietors and partners of

unincorporated businesses that do not have other employees on the payroll. SBO data showed the following.

- *Employers:* There were 41,283 Hispanic-owned firms with paid employees in Texas in 2007, an increase of 20 percent compared to 2002. These businesses employed 395,673 people (an average of 9.5 employees per firm) and had sales receipts of \$45.7 billion.
- *Non-employers:* The number of Hispanic-owned businesses without paid employees increased by 42.6 percent to 406,306. Sales receipts for these businesses without employees totaled \$16.2 billion.

These numbers indicate that in Texas, Hispanic-owned firms are very small enterprises and not likely to generate the employment growth needed to keep up with the rapid demographic changes occurring in the Texas Hispanic population (The Julian Samora Research Institute, 2011).

Research into non-employer businesses shows that most of these firms start small and stay small, never growing beyond the sole proprietor and never hiring other workers. Davis et al. (2007) showed that over a three-year period, only 3 percent of 7 million businesses in their study transformed from firms without employees into employer businesses.

As noted by Headd and Saade, “for a business to go from zero employees to one employee is often a significant leap in organizational development, requiring a steady revenue stream, payroll accounting, and more complex tax requirements.” (Headd and Saade, 2008, p.3) Moreover, Désiège et al. (2011) showed that firms that employed at least one person when they started had a higher probability to employ additional employees than those firms that started without employees. They also find that the longer a non-employer survives, the lower the probability of hiring at least one employee.

Davis et al. (2007) questioned the validity of identifying all non-employers as “businesses” because many of them are actually side jobs, hobby or “lifestyle” businesses, or occasional consulting businesses that generate extra income for people that depend primarily on wages.

Part 2: Results from the BBR Survey of Hispanic Employers

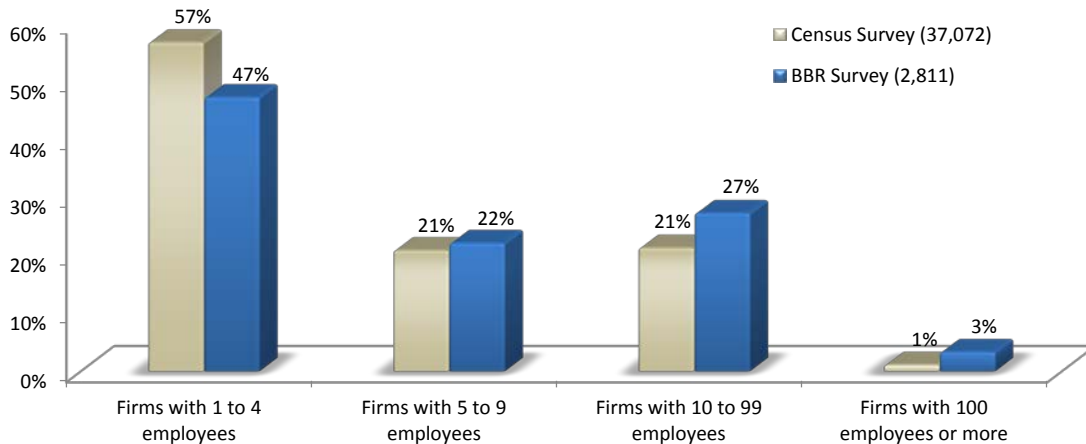
Some of the figures in this section include Census data for comparison, but most of them contain data from the BBR survey of Hispanic-owned employers in Texas; thus, most figure titles reflect items in the questionnaire used in the BBR Survey.

Characteristics of Texas HOBs with paid employees

Most businesses are small

The size distribution of firms in the BBR survey of Hispanic-owned businesses in Texas closely mirrored firm size distribution from the 2007 SBO. The results from the BBR survey indicated that 47 percent of Hispanic employers had fewer than 4 employees, while 22 percent had between 5 and 9 employees, and only 30 percent had more than 10 employees. As observed in figure 4, these percentages were close to the size distribution of Hispanic employers in the 2007 SBO.

Figure 4. Current number of employees in business, including self



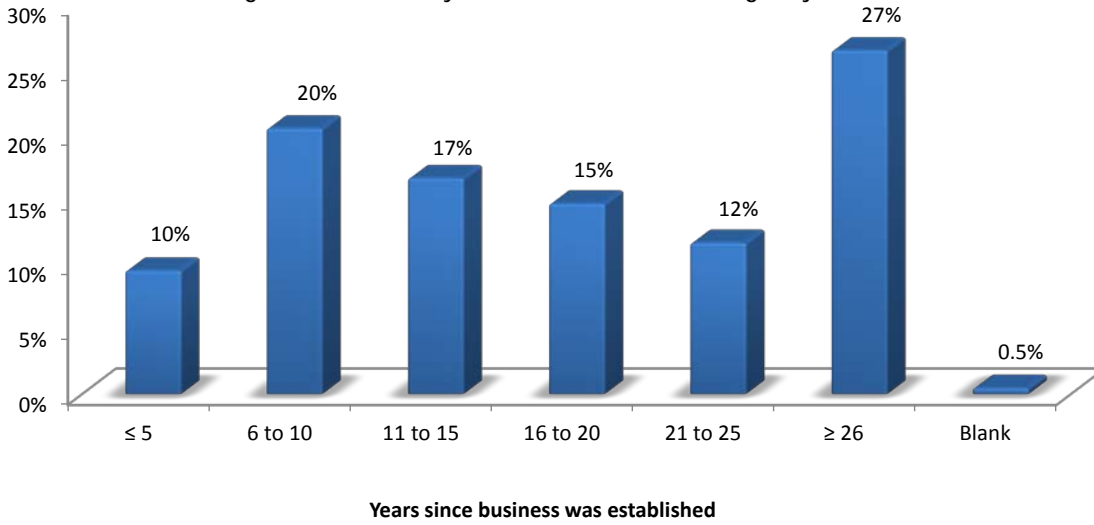
Sources: 2007 Survey of Business Owners, and BBR Survey

One of the most important features revealed in this figure is that most Hispanic firms are small—47 percent of firms in the BBR survey had fewer than 5 employees. Indeed, only 3 percent of the firms in the BBR survey had more than 100 employees, and only 1 percent of the firms in the 2007 SBO has more than 100 employees.

Most Hispanic-owned businesses stay small

Most of the Hispanic employers in the BBR survey (54 percent) had been in business for more than 15 years, suggesting a low probability of failure (see figure 5). Indeed, there was evidence that firms that have been in business longer were less likely to fail (Brock and Evans 1986).

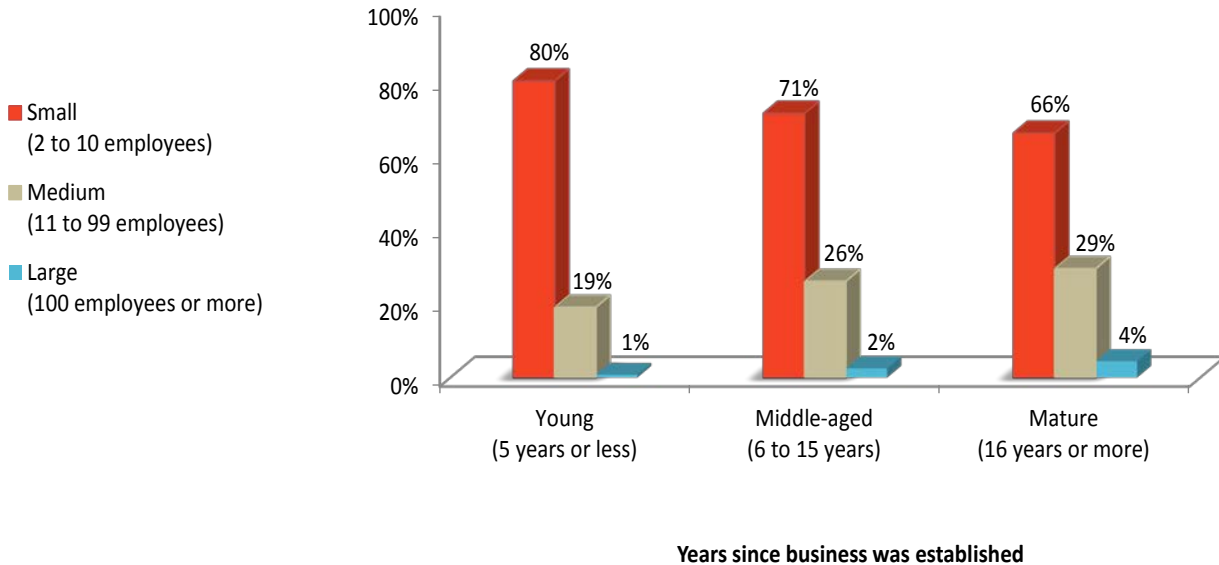
Figure 5. Number of years since business was originally established



Source: BBR Survey

BBR survey results also revealed a scalability problem, as most of these businesses remained small even after many years of operation. Indeed, as seen in figure 6, about 80 percent of young firms (5 years or less) had fewer than 10 employees, while 66 percent of mature firms (16 years or more) continued to have fewer than 10 employees. These results support findings from a previous study commissioned by the Kauffman Foundation that identified *scalability* as a major problem confronted by Hispanic-owned businesses (Boston Consulting Group 2005).

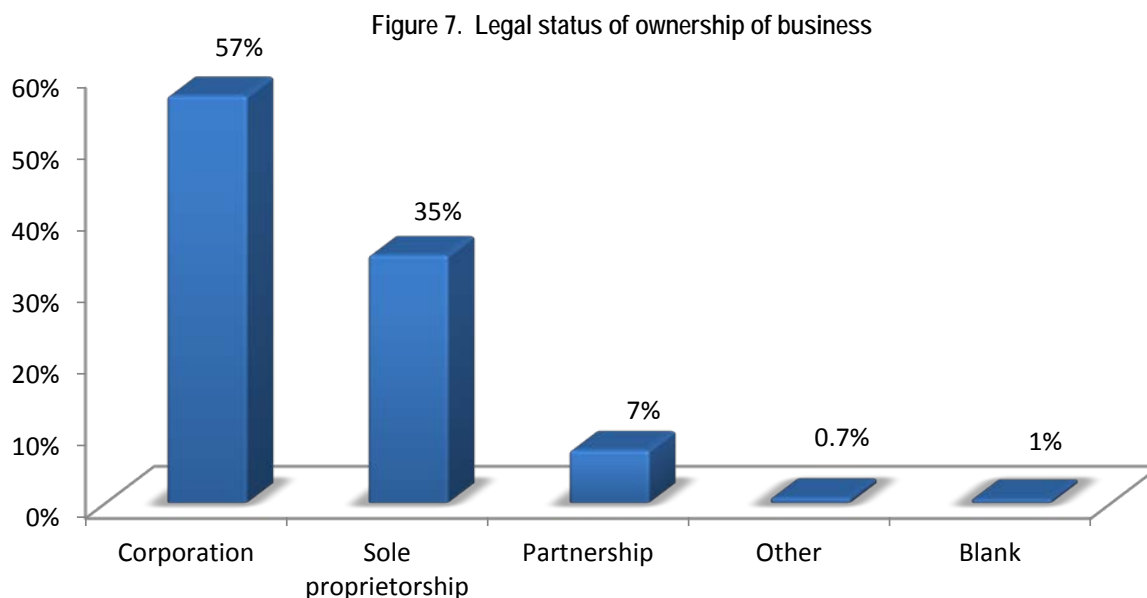
Figure 6. Distribution of firms by size and years in business



Source: BBR Survey

Corporations dominate the legal status of ownership

The legal form a business takes affects how much it pays in taxes, who can invest in the company, and most importantly, the owner's personal liability. *Corporations* accounted for the largest percentage of HOBs (57 percent) in the BBR survey. A corporation (C Corporation or Subchapter S Corporation) is any legally incorporated business under Texas state law. The BBR survey findings were in line with previous studies. For instance, using data from special tabulations from the 2002 SBO, Headd and Saade (2008) found that in the United States most employers were corporations (66 percent) and most non-employers were unincorporated (87 percent).



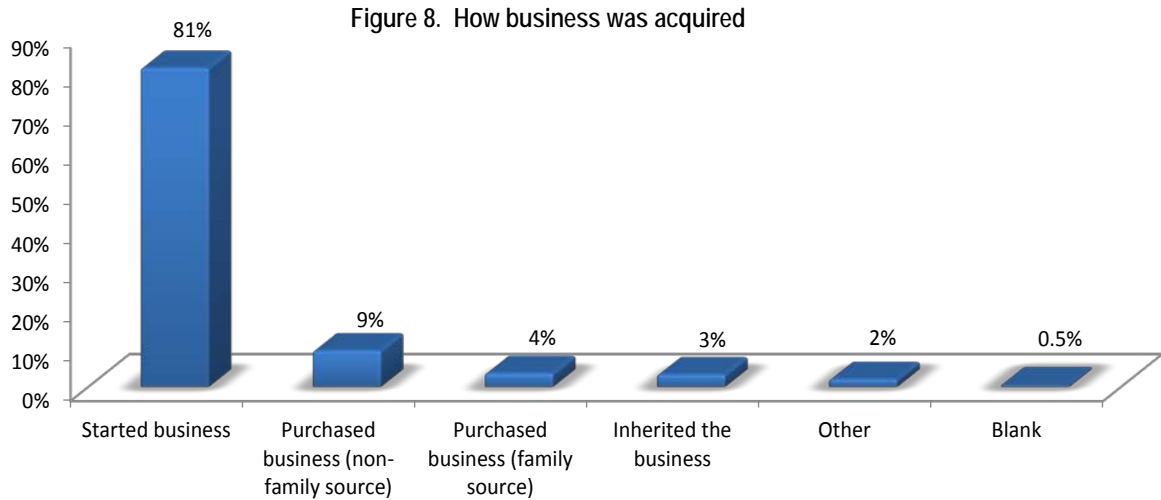
Source: BBR Survey

Sole proprietorship accounted for 35 percent of the BBR survey. These were unincorporated businesses owned by an individual where the owner does not have protection from personal liability if his/her business is sued. The business may be the only occupation of an individual or it could be owned by an individual who works full time for someone else.

Partnerships (including Limited Liability Partnerships-LLP) accounted for only 7 percent of businesses in the BBR survey. These were unincorporated businesses with more than one owner who actively engages in the management of the company.

Most Hispanics started their business from scratch

The BBR survey examined alternative paths to business ownership for Hispanic employers, including starting, purchasing, or inheriting the firm. Data show that 81 percent of Hispanic-owned businesses with paid employees started their business, 9 percent bought it from a non-family source, and only 3 percent inherited it.

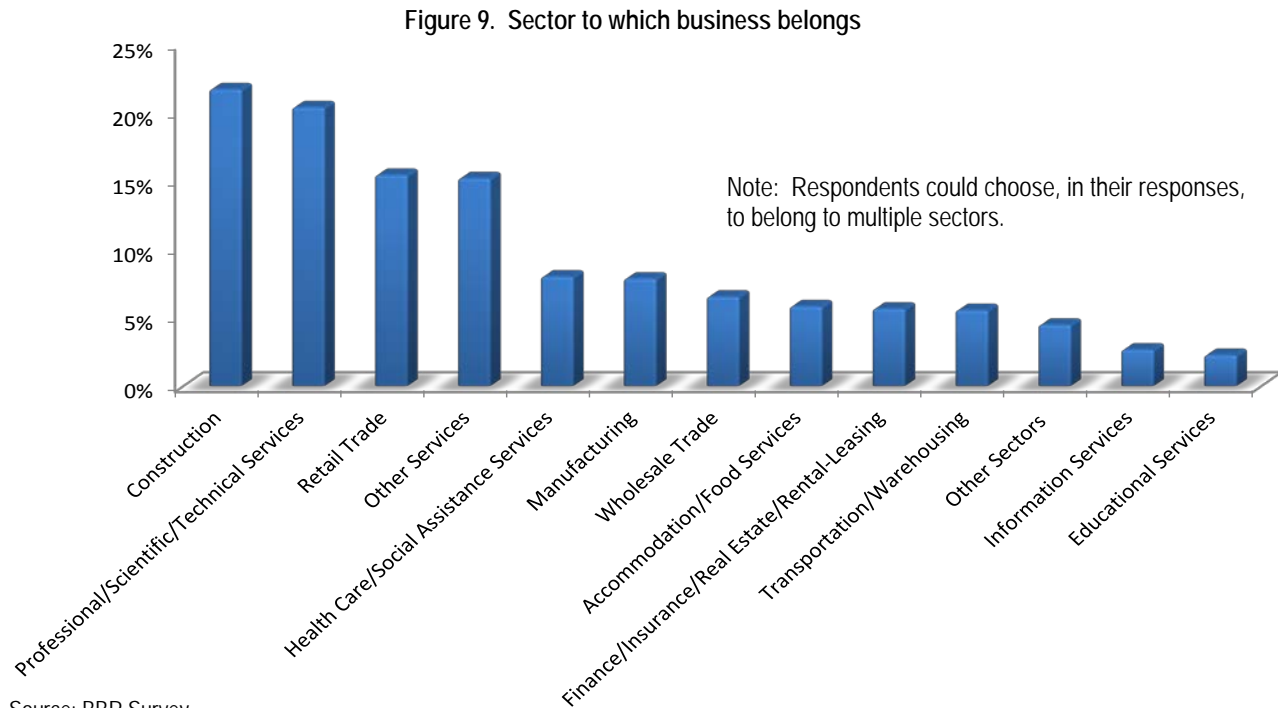


Source: BBR Survey

The data were very similar to previous studies for the United States. For instance, in an analysis of the differences in paths to business ownership for minorities and non-minorities, Feldman et al. (1991) found that 83 percent of Hispanic business owners had started their business, while 10 percent had purchased their business from a non-family source, and only 7 percent had inherited their business.

Service sectors dominate

Almost 22 percent of respondent firms in our survey came from the construction industry, but firms in the service sector account for the bulk of HOB respondents: professional/scientific/technical services (20.4 percent), retail trade (15.4 percent), and health care (8 percent).



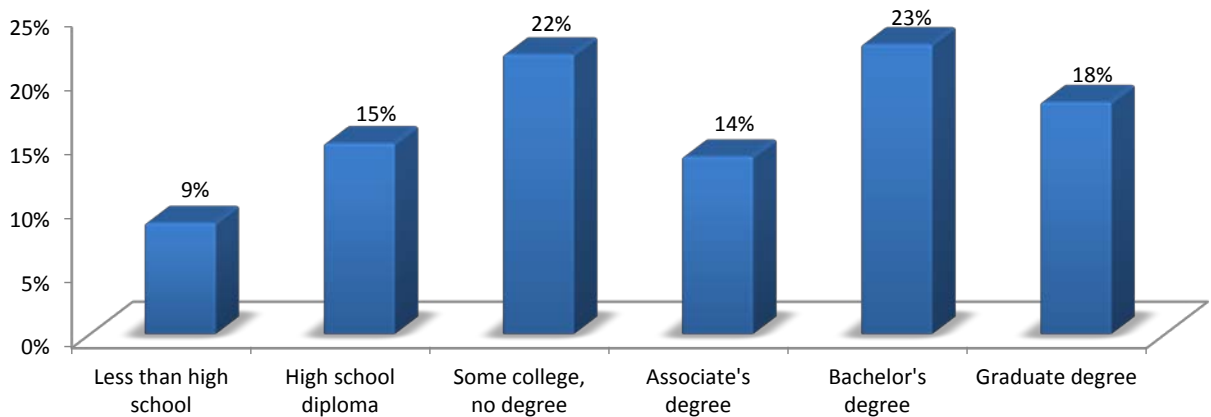
Source: BBR Survey

Demographics of the Hispanic business owner

Hispanic employers are well educated

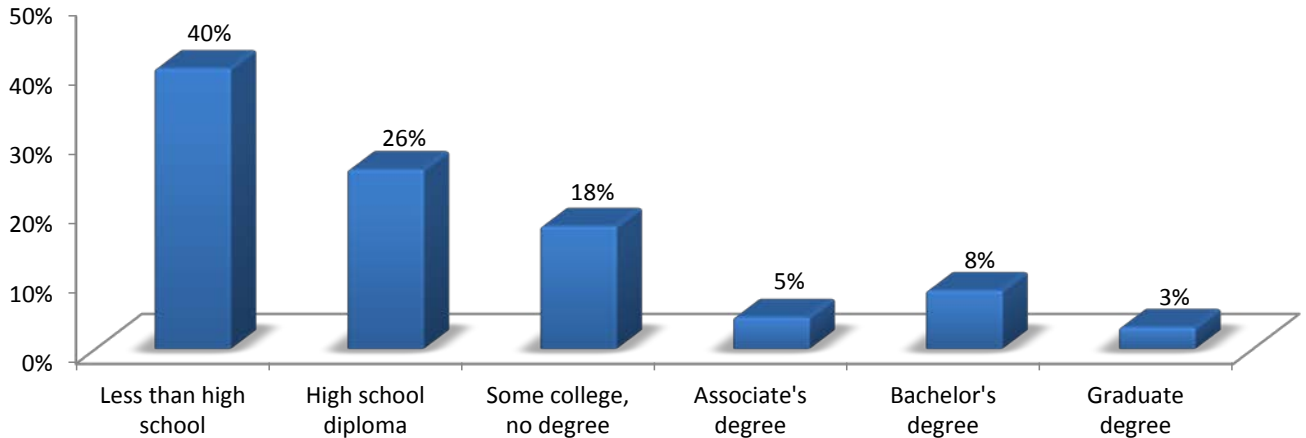
As figure 10 shows, about 41 percent of the business owners in the BBR survey of Hispanic employers had a bachelors or graduate degree and 77 percent had at least some college. Overall, the Hispanic business owners surveyed had more education than the general Hispanic population aged 25 years and older in Texas. Only 11 percent of Texas Hispanics have a bachelor's degree or higher, while 34 percent have some college education, with or without a degree (figure 11). Previous evidence indicating a positive relationship between education and business performance is quite strong (van der Sluis, van Praag, and Vijverberg 2004, 2005; Weaver, Forest, and Solomon 2006). Thus, education is one of the most important determinants of business performance.

Figure 10. Highest degree or level of education completed



Source: BBR Survey

Figure 11. Census data on education levels of the Hispanic population 25 years and older in Texas

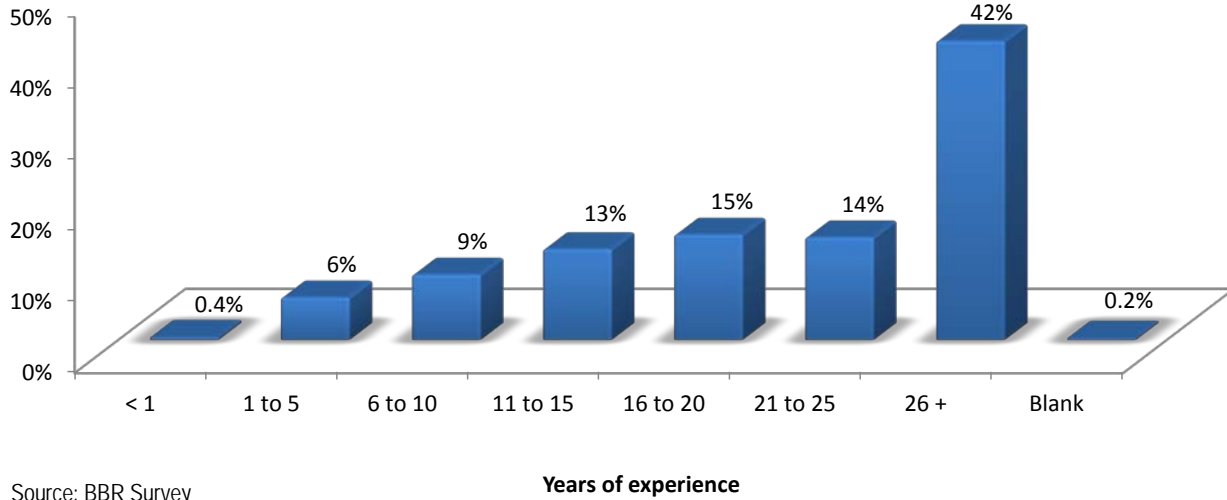


Source: American Community Survey (1-year estimates), 2010. Data on Hispanic or Latino population 25 years and over in the State of Texas.

Hispanic employers have long-standing business experience

As shown in figure 12, about 56 percent of the business owners in the BBR survey had more than 20 years of experience in their current business.

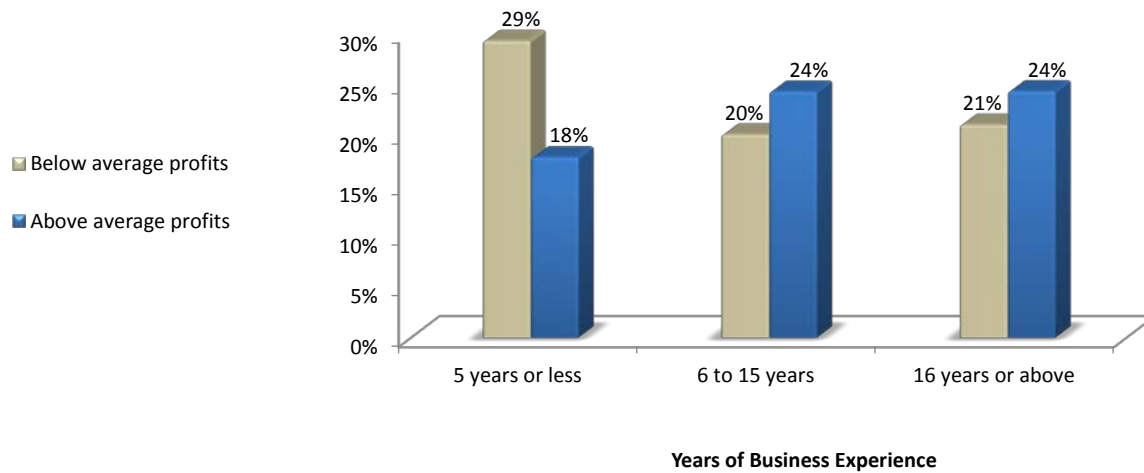
Figure 12. Total years of experience in current business



Source: BBR Survey

Not only education but also business experience is one of the most important determinants of business performance. As shown in figure 13, the two groups of firms managed by Hispanics with *more than 6 years* of business experience in their current business comprised a larger percentage of firms reporting *above average profits* (24 percent) than those with below average profits (20 percent). In contrast, firms managed by Hispanics with *5 years or less* of business experience indicated a larger percentage of firms with profits *below average* (29 percent) than those with profits above average (18 percent).

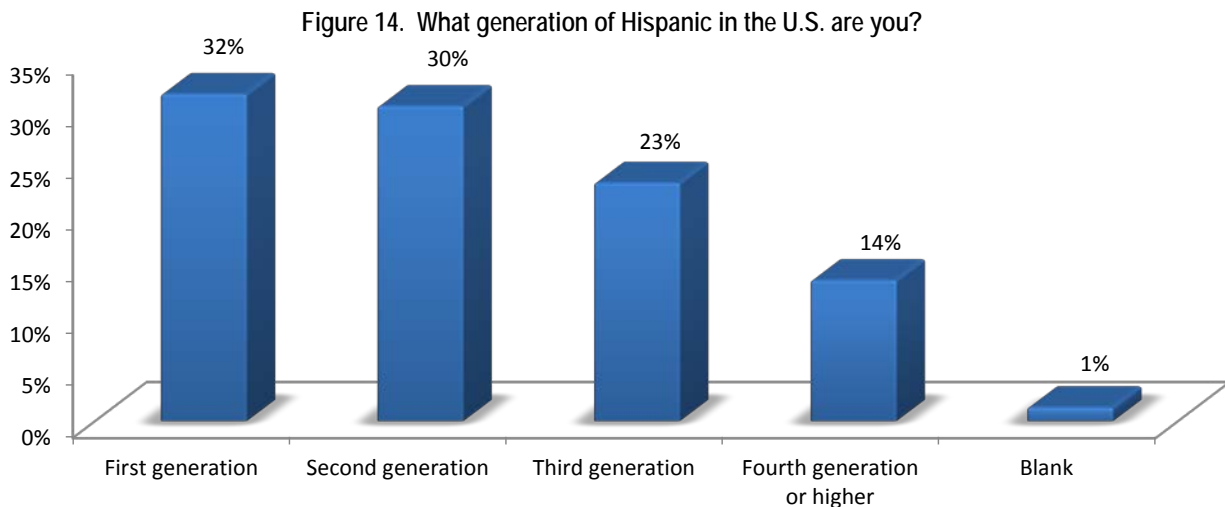
Figure 13. Perceived firm profitability according to owner's years of business experience



Source: BBR Survey

First generation of Hispanics is the most business oriented

The BBR survey defined *Hispanic immigrant business owners* as individuals of Hispanic origin, born outside the United States (first generation), and currently owning a business in Texas.⁵ We define *native or U.S.-born Hispanic business owners* as individuals of Hispanic descent who were born in the United States (second generation and beyond) and own a business in Texas.⁶ Other research has shown that business ownership is higher among immigrants than the native-born (Borjas 1986, Butler and Green 1997, Fairlie 2009). Indeed, figure 14 shows a clear negative correlation between the percentage of Hispanic business owners and the time they have been in the United States. For instance, first-generation Hispanics account for 32 percent of the BBR survey, while fourth-generation Hispanics account for only 14 percent of business owners in the survey. Not surprisingly for Texas, a single ethnic group alone, Mexican, accounts for 85 percent of the BBR survey.



Source: BBR Survey

Survey participants' opinions on perceived training needs

When Hispanic employers in Texas were asked in an open-ended question about their three top training needs ranked in order of importance, they cited *management and leadership* (24 percent), *improved business/consumer relations/sales* (16 percent) or *more effective communication* (14 percent) as their number one training need (figure 15). Listed less often as their number one training need were *accounting/finance* (6 percent), *marketing/advertising* (4 percent), or *human resources* (4 percent).⁷ A complementary

⁵ First-generation immigrant business owner is defined as someone born outside the U.S. and who can be a naturalized U.S. citizen, legal immigrant, or undocumented immigrant.

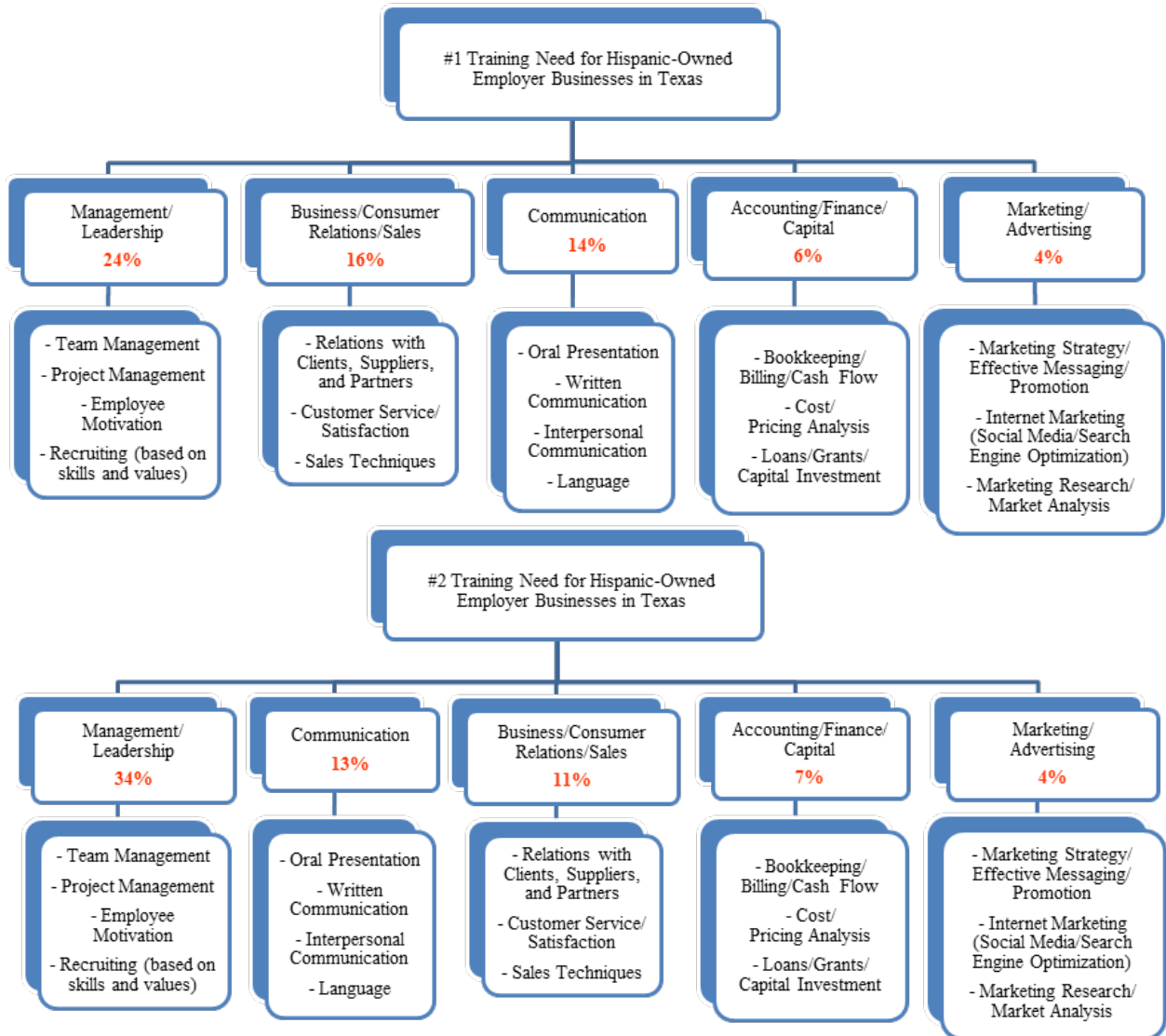
⁶ "Second-generation business owner" is defined as someone born in the U.S. with at least one foreign-born parent. "Third-generation business owner" is defined as someone born in the U.S. with both parents born in the U.S.

⁷ Categories of training needs not included in the figure are: Business-Specific Training (10%), Computer Skills (6%), Human Resources (4%), Health and Safety (4%), Legal and Government (4%), Operations (3%), Business Development (2%), Language (1%), and Other (4%).

distribution of these same priorities emerged as their number two training need: *management and leadership* (34 percent), *more effective communication* (13 percent), or *improved business/consumer relations/sales* (11 percent).⁸

Combining these complementary results of training needs prioritized as first or second, one finds that 58 percent of Hispanic businesses with paid employees perceive the need for *management and leadership training*, while 27 percent perceive the need training in *communication* and *business/consumer relations*.

Figure 15. Top two training needs (in order of importance)

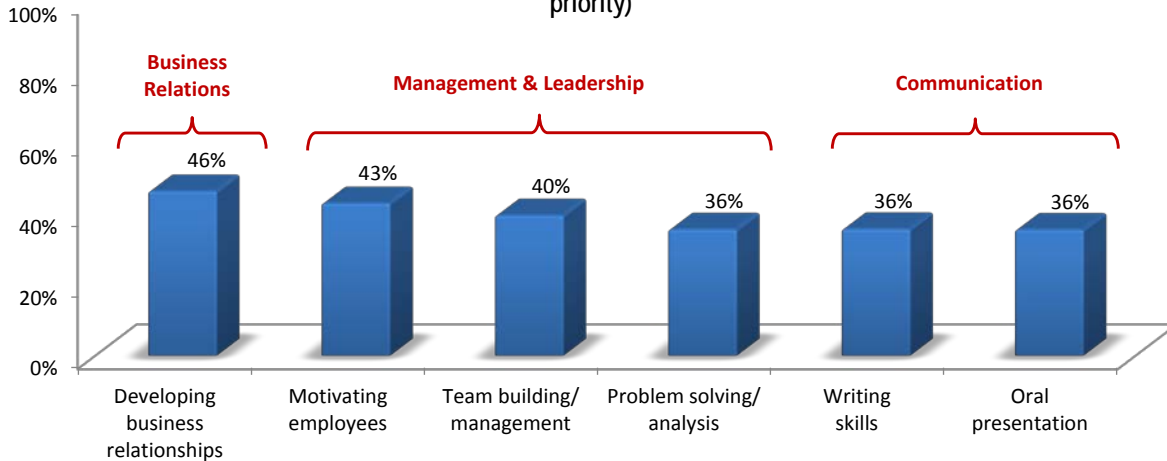


Source: BBR Survey

⁸ An open-ended question in the BBR Survey questionnaire asked for the top three training needs ranked in order of importance; figure 15 illustrates respondents' top two, because most respondents answered with their top two training needs, but many failed to list a third.

Figure 16 shows that when business owners were asked in a closed-ended question to prioritize the need for training in specific business skills, a large percentage of survey participants (40 percent and above) in the BBR survey selected developing business relationships and management skills (e.g., motivating employees and team building) as medium high/high priority areas for training.

Figure 16. Prioritize the *need for training* in the following business skills
(Analysis conducted for those who ranked the need for training in each of the following skills as medium-high or high priority)

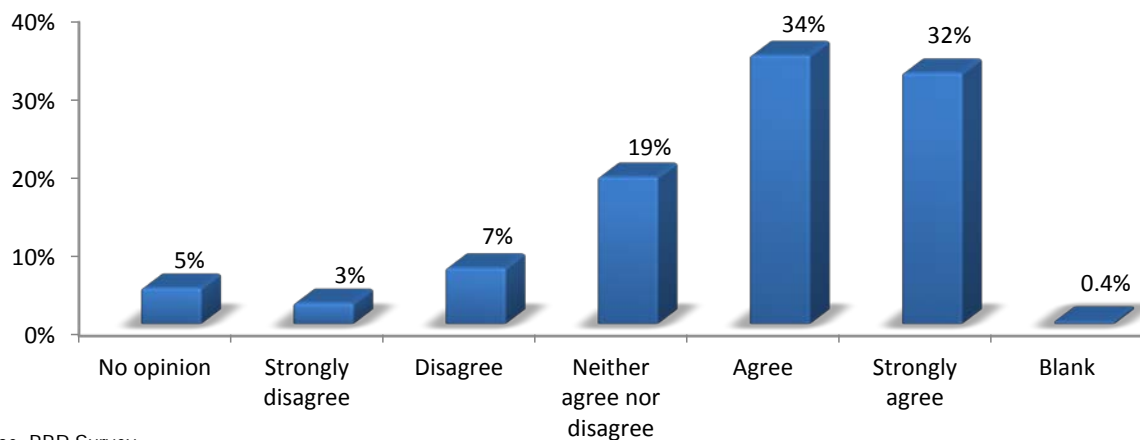


Source: BBR Survey

Survey participants' opinions on perceived fairness in procurement opportunities

Figure 17 shows that 66 percent of the survey participants agreed/strongly agreed that understanding the political system (local, state, and federal) was a critical factor in the success of Hispanic businesses. Indeed, only 10 percent disagreed or strongly disagreed with this statement, while the rest did not have an opinion or were neutral.

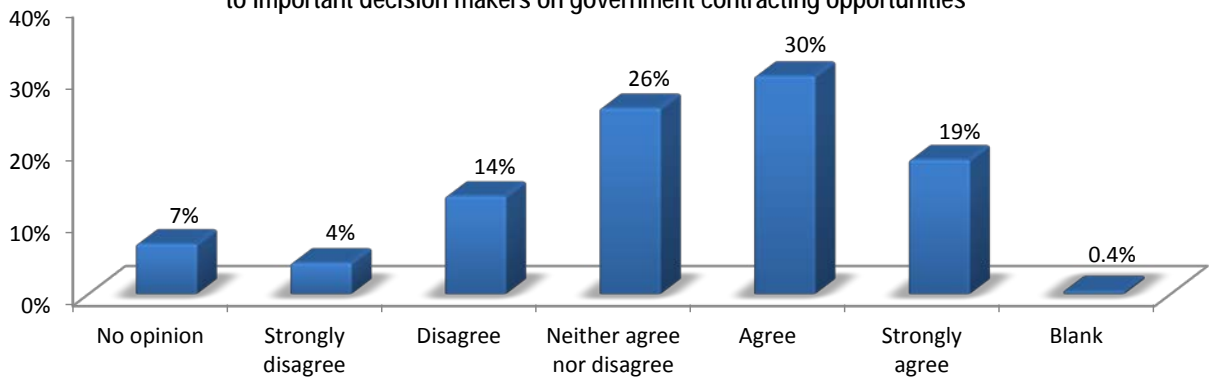
Figure 17. Understanding the political system is a critical factor in the success of business



Source: BBR Survey

When asked if Hispanic-owned firms have less access than other firms to important decision makers on government contracting (procurement) opportunities, 49 percent agreed or strongly agreed (see figure 18). In contrast, 18 percent of the survey participants disagreed or strongly disagreed with this statement. In this regard, a Kaufman Foundation study (2005, p. 8) notes: “Today, minority business leaders don’t always get to contribute to and shape policy, public dialogue, and private development—leaving our nation’s assets underutilized. Minority business leaders hold the key to enhance economic success because they serve as a bridge between the corporate world and minority groups.”

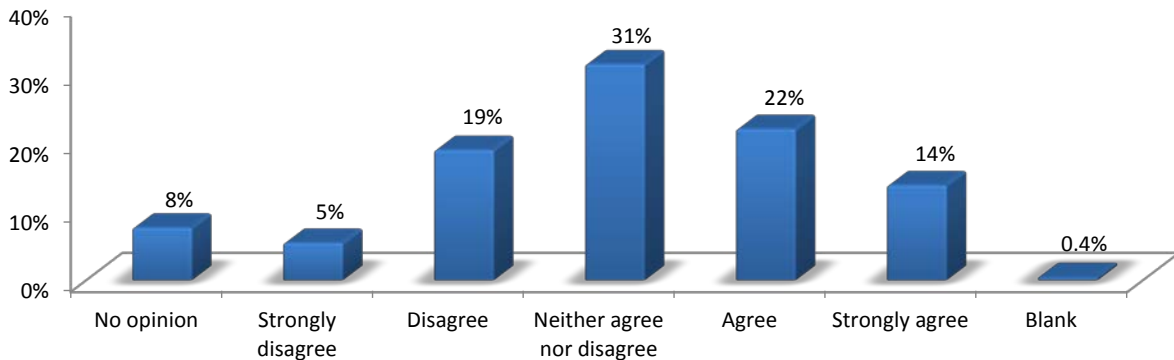
Figure 18. Hispanic-owned firms have less access than other firms to important decision makers on government contracting opportunities



Source: BBR Survey

More survey participants agreed/strongly agreed (36 percent) than disagreed/strongly disagreed (24 percent) that Hispanic-owned businesses were unfairly excluded from participating in government contracting (procurement) opportunities more often than non-Hispanic businesses (figure 19).

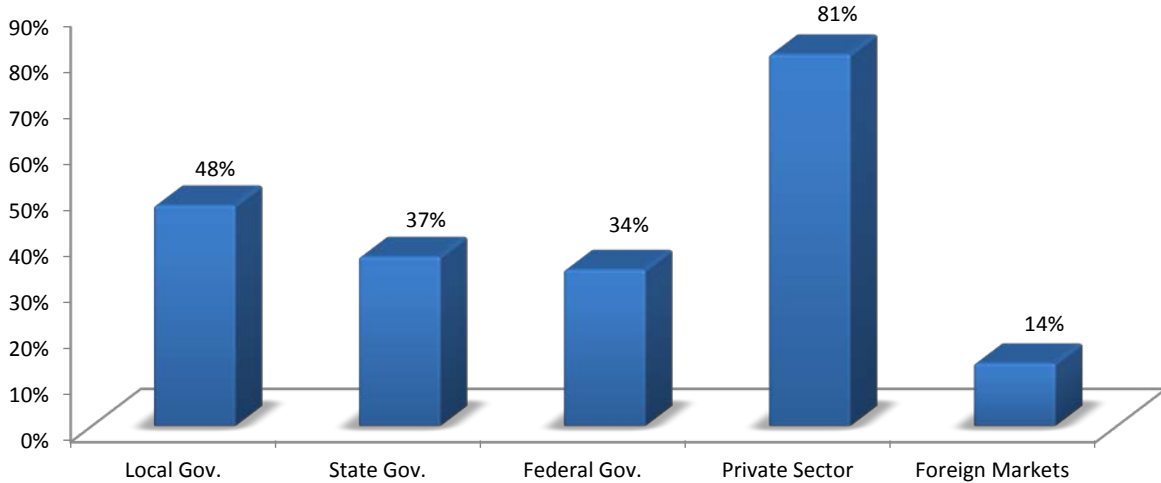
Figure 19. Hispanic-owned businesses are unfairly excluded from participating in government contracting opportunities more often than non-Hispanic businesses



Source: BBR Survey

Figure 20 shows that the private sector was an important customer for Hispanic businesses with paid employees in Texas. Indeed, 81 percent of the survey participants indicated that they had done business with the private sector in the past year. This is in contrast to those who indicated they had done business with local government (48 percent), state government (37 percent), and federal government (34 percent).

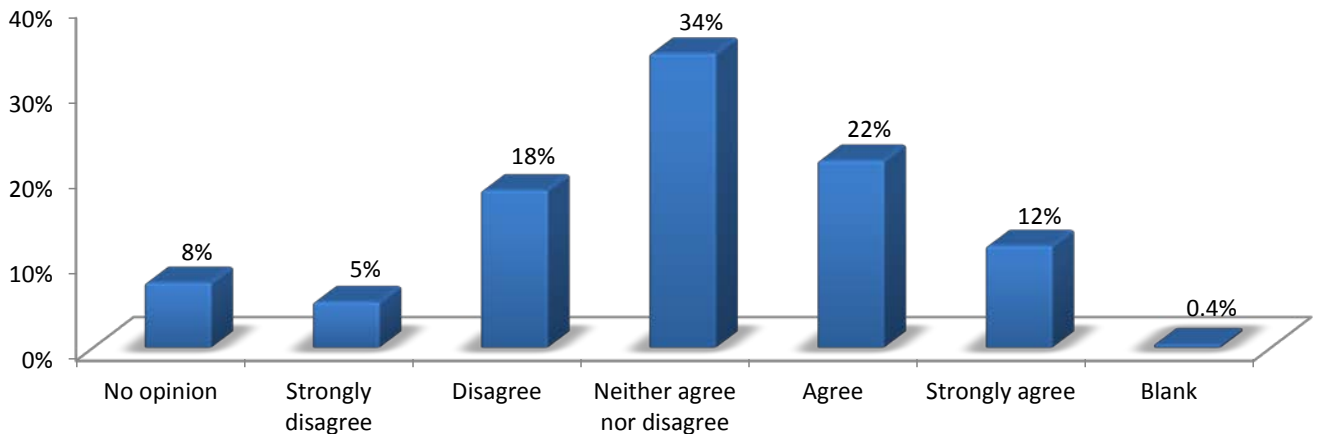
Figure 20. All sectors you have done business with since January 2010 (multiple responses allowed)



Source: BBR Survey

Figure 21 shows that more survey participants agreed/strongly agreed (34 percent) than disagreed/strongly disagreed (23 percent) that Hispanic-owned businesses were unfairly excluded from participating in private sector contracting (procurement) opportunities more often than non-Hispanic businesses.

Figure 21. Hispanic-owned businesses are unfairly excluded from participating in private sector contracting opportunities more often than non-Hispanic businesses



Source: BBR Survey

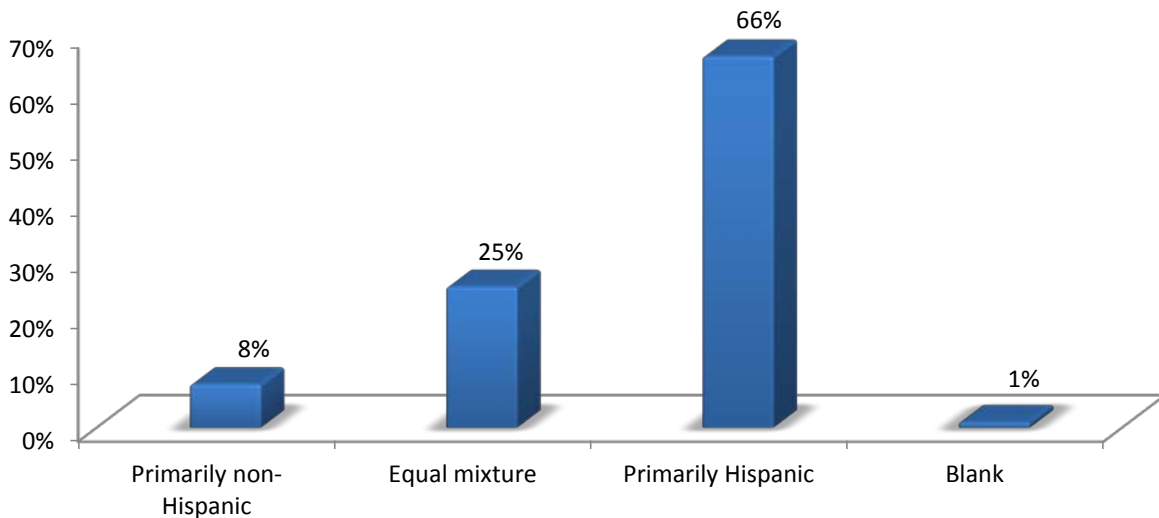
In sum, 34 percent of survey participants agreed/strongly agreed that they did not have equal opportunities in the *private sector*, which is similar to their response regarding opportunities in the *public sector* (36 percent). However, a much larger percentage (49 percent) agreed/strongly agreed that they did not have equal opportunities in *accessing important decision makers in government contracting*.

Other key findings

Hispanic-owned businesses hire mainly Hispanics

A majority of Hispanic businesses in the BBR survey (66 percent) responded that the majority of employees in their business were Hispanics (see figure 22). This is in line with data from the 1992 Characteristics of Business Owners indicating that companies tended to hire most of their employees from the same ethnic background of the company owner. For instance, 60 percent of the owners of Hispanic employer firms in the United States reported that their workforce consisted of at least three-quarters minority employees in 1992, most of whom were probably Hispanics. In contrast, only 12 percent of the owners of non-minority-male-owned firms reported that their workforce consisted of at least three-quarters minority employees.⁹

Figure 22. The majority of employees of business are:



Source: BBR Survey

Fratoe (1988) pointed out that Hispanic-owned firms (and minority-owned firms in general) hired a disproportionate share of minorities. He speculated that these firms may turn to the larger ethnic

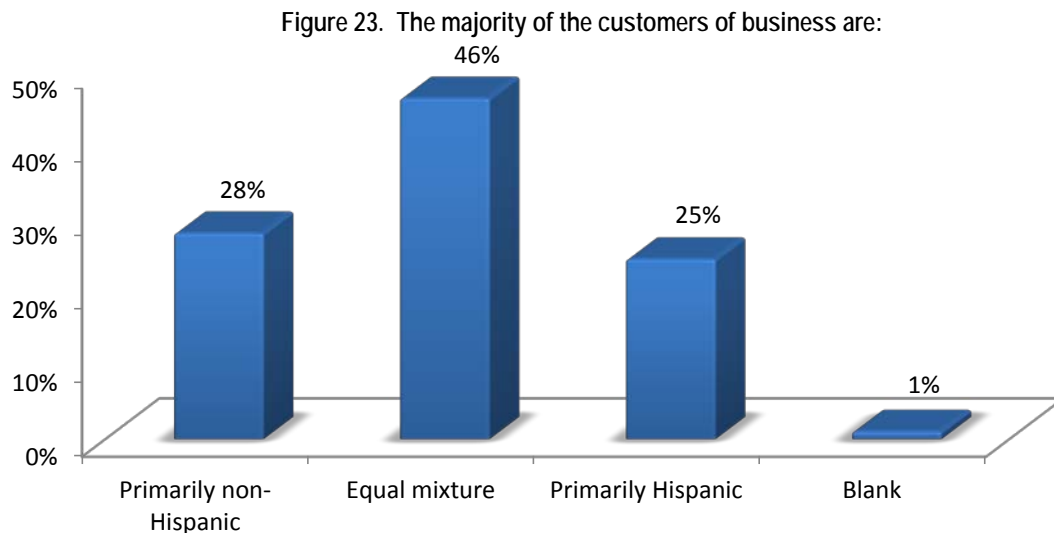
⁹ This is the only Census data that provides information on the ethnicity of customers and employees for businesses owners with different ethnic backgrounds. See “1992 Economic Census: Characteristics of Business Owners,” data estimated from Table 29a, p. 238. <http://www.census.gov/prod/3/97pubs/cbo-9201.pdf>, accessed July 31, 2012.

community to fill their employment needs, counting on the similar cultural affinities and background of their employees to secure a loyal workforce.

Fairlie (2005) noted that the potential benefits of promoting minority business ownership in terms of increasing minority employment should not be overlooked. Making the conservative assumption that half of all employees at Hispanic-owned firms are Hispanics, an increase by only 10 percent in both the number of Hispanic-owned firms with paid employees and the average number of employees per firm could result (using data for 2007) in approximately 41,435 new jobs for Hispanics—a significant increase, given that there are roughly 396,000 Hispanics currently unemployed in Texas (U.S. Bureau of Labor Statistics 2011).

Hispanic businesses have ethnically diversified customers

The BBR survey asked whether the majority of customers were primarily Hispanic, an equal mixture of Hispanic and non-Hispanic, or primarily non-Hispanic. Figure 23 shows that about 46 percent of Hispanic businesses with paid employees reported that their customers were an equal mixture, and 28 percent said they had primarily non-Hispanic customers. Only 25 percent of the firms in this survey sold goods or services predominantly to Hispanics.

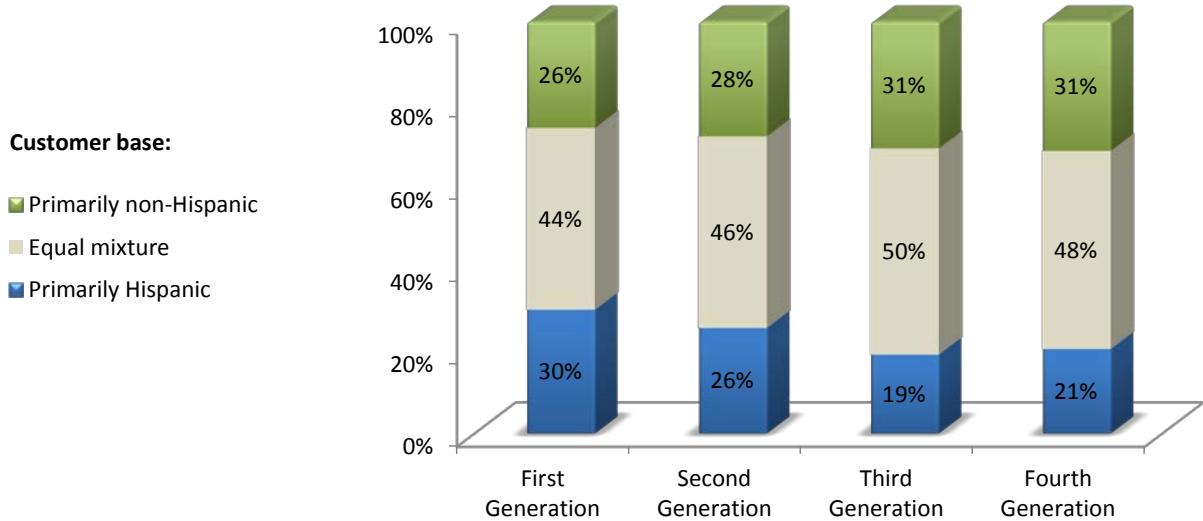


Source: BBR Survey

Did the survey data find evidence for the “customer enclave” hypothesis? This hypothesis would argue that Hispanic business owners tend to rely more on the Hispanic market than U.S.-born business owners (Butler and Greene 1997, Shinnar et al. 2009, Borjas 1986). Should first-generation Hispanic business owners pursue a strategy that focuses on the niche represented by their ethnic enclave, and thereby benefit from a distinct competitive advantage over nonimmigrants, or should they instead address their new country’s dominant marketplace? Figure 24 shows that while it is true that first-generation Hispanic

business owners tend to rely more on the Hispanic market (30 percent) than do fourth generation (21 percent), a nine-point percentage difference between these two groups gives little support to the customer enclave hypothesis, at least when the survey is restricted to Hispanic employers.

Figure 24. Customer base by respondent's generational status



Source: BBR Survey

Conclusions: Improving Business Opportunities and Outcomes for HOBs in Texas

According to the 2010 U.S. Census, Hispanics drove Texas' population increase in the previous decade, reaching 38 percent of the state's 25.1 million people in 2010 (McKinley 2011). The Texas State Data Center (2012) estimates that the number of Hispanics will likely exceed the number of non-Hispanic Whites in the state around 2015.

In 2009, a relatively small percentage of Hispanics (11 percent) in Texas had a college education when compared with non-Hispanic Whites (34 percent), while a large percentage of Hispanics had less than a high school diploma (43 percent) compared with Whites (8 percent). Moreover, data from the Economic Policy Institute for 2009 (Austin 2010) showed average unemployment rates 3 percentage points higher for Hispanics than for Whites (5.7 percent) in the metropolitan areas of Dallas–Fort Worth, Houston, San Antonio, and Austin. These data showed that the Hispanic population in Texas is growing rapidly but with higher unemployment rates and lower levels of education than the non-Hispanic White population in the state.

In spite of these challenges, Hispanics are contributing to the economic development of the state with their capacity to create new businesses. Indeed, Hispanic businesses and the new jobs they create are a bright spot in the Texas economy. Hispanics created 128,249 new businesses and 115,517 new jobs in Texas between 2002 and 2007 (U.S. Bureau of the Census, SBO). However, as indicated earlier, most of these businesses are small and do not scale up. In this regard, David Hinson, National Director of the U.S. Department of Commerce's Minority Business Development Agency, noted: "The average Hispanic firm is too small ... What we have to do is work hard to make the investment that these firms [need to] grow faster so they can create more jobs and have more economic output for the nation" (quoted in Harrell 2010). Steven Wray (2008, p. 1), Executive Director of the Economy League of Greater Philadelphia adds, "While the past 40 years have helped create more minority business owners, the *next generation of policies and programs* must focus on growing more minority-owned businesses to scale, helping move them toward the next level of size, profitability, and influence" (emphasis added).

Most Hispanic employers have yet to expand beyond small and often family-run operations. While many of them dream about growing their businesses, lack of managerial expertise and difficulties accessing government and private sector customers prevent them from realizing this dream. A study commissioned by the Kauffman Foundation noted that closing the gap between minority- and majority-owned businesses required a shift in mindsets and described it in the following terms: "Past and current efforts—while successful in making broad gains—will prove inadequate in resolving the remaining disparity and in achieving future progress. Efforts must be consolidated and resources allocated with precision to home in on the most promising and powerful opportunity: building minority businesses of size" (Boston Consulting Group 2005, p. 2).

The survey results presented in this report highlight the need for policymakers and business leaders together to address four important goals for Hispanic-owned firms in Texas:

- ❖ *Goal 1:* Grow HOBs to scale.
- ❖ *Goal 2:* Address HOBs' training needs.
- ❖ *Goal 3:* Transfer knowledge of HOBs' best practices to the next generation of Hispanic entrepreneurs.
- ❖ *Goal 4:* Track the health of the Hispanic business community in Texas.

While particular strategies to achieve these goals are beyond the scope of this study, it is hoped that this report will result in a better understanding of the landscape of Hispanic-owned firms that are creating job opportunities in the state. The insights and knowledge contained in the report have important implications for public policy, education, and economic development as well as wealth creation in Texas.

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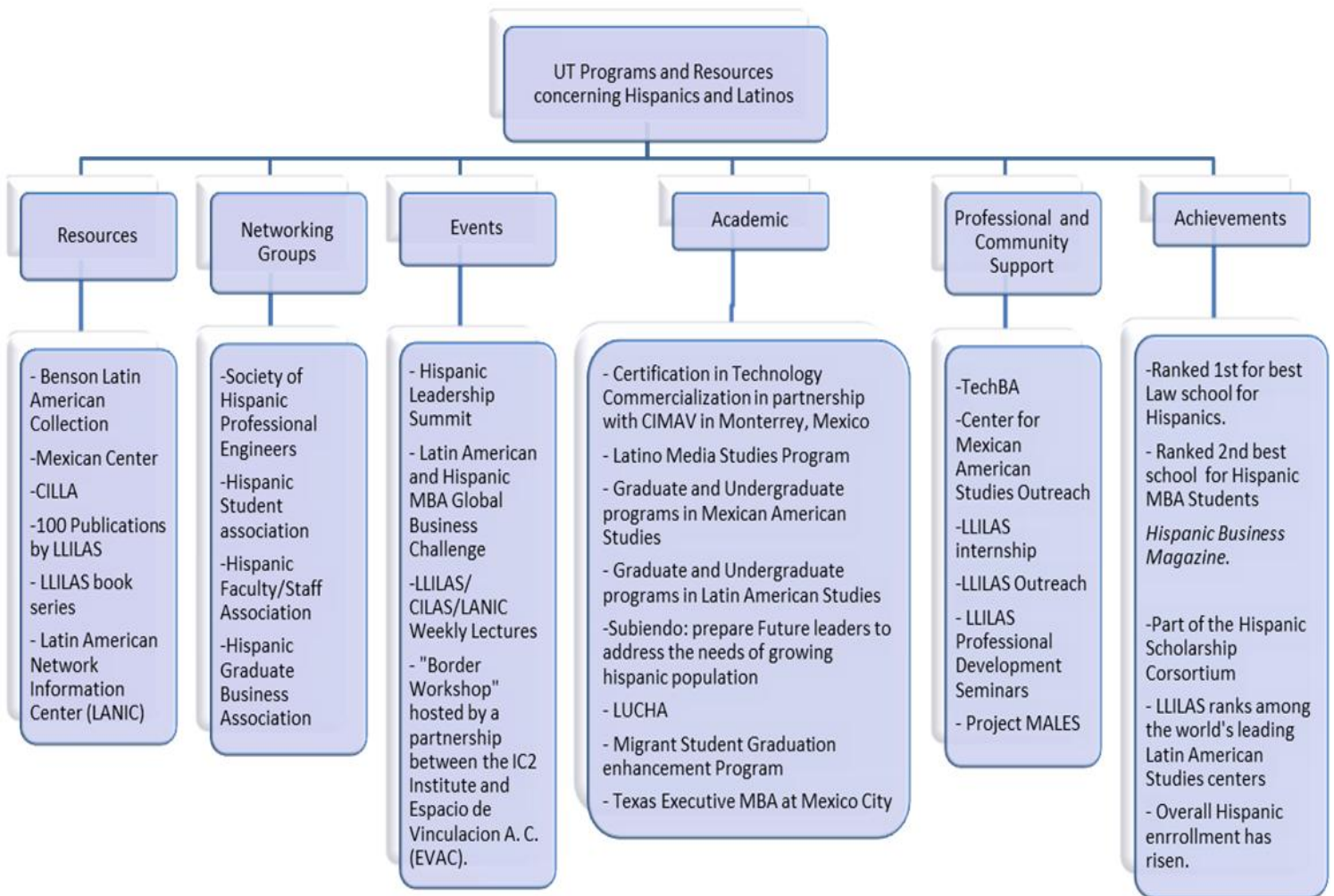
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Appendix A: Examples of University of Texas at Austin Programs Related to Hispanics

The BBR survey and results presented here complement a number of other significant assets and programs at The University of Texas at Austin related to research and teaching on Hispanic culture, business, education, and the arts. The survey, in fact, follows the 2009 publication of IC² Director John Butler’s book on Mexican-American entrepreneurs entitled *An American Story: Mexican-American Entrepreneurship and Wealth Creation* (Butler et al. 2009). These two initiatives, however, are just two of many UT activities summarized below.

Figure 1A. Selected assets and programs related to Hispanics at The University of Texas at Austin



Appendix B: Sample Characteristics and Survey Methodology

The methodology employed in the BBR survey consisted of standard, accepted research procedures, methods, and techniques (including obtaining survey approval from the University's Institutional Review Board). Consequently, subject to the research design parameters, survey results should be considered reliable, valid, and generalizable to the targeted universe of Hispanic-owned businesses with paid employees in Texas.

Sampling Frame

Data were collected by means of questionnaires mailed to the owners and chief executives of a sample of Texas businesses designated as being Hispanic-owned. Eight different databases constituted the collective sampling frame containing 23,805 (non-duplicated) businesses from which a final random sample of 12,306 Hispanic businesses with correct addresses were mailed a questionnaire in the summer of 2011. A brief description of each of the eight databases is presented below.

- *Database 1* was provided by the Texas Statewide Historically Underutilized Business (HUB) Program of the Office of the Texas Comptroller of Public Accounts.
- *Database 2* was provided by NERA Economic Consulting from the National Directory of Minority-Owned Business Firms. The Directory is published by Business Research Services, Inc. (www.sba8a.com/brs.htm) and is considered one of the most comprehensive directories of minority-owned firms in the United States serving government and industry prime contractors and subcontractors.
- *Database 3* was provided by NERA Economic Consulting from a directory of certified diversity-owned businesses created by DiversityBusiness (www.diversitybusiness.com). DiversityBusiness provides a member-based information resource portal and business-to-business exchange platform to facilitate communication and streamline business processes for small businesses who supply goods and services to Fortune 1000 corporations, government agencies, and institutions of higher education within the United States.
- *Database 4* was provided by NERA Economic Consulting from the 2011 DIR National Minority & Women-Owned Business Directory, published by Diversity Information Resources (DIR) (www.diversityinforesources.com). DIR is an organization in the supplier procurement industry focused exclusively on developing and supporting supplier diversity programs.
- *Database 5* was provided by NERA Economic Consulting from the federal Central Contractor Registry (CCR) (<https://www.bpn.gov/ccr/>) and the U.S. Small Business Administration's Small Business Source System (SBSS). The CCR is the primary database of vendors doing business with the federal government. Federal Acquisitions Regulations require all prospective vendors to be registered in the CCR prior to the award of a contract or a purchase agreement. The CCR contains the SBSS—an internal database of firms certified by the SBA under the 8(a) Business Development and HUBZone Programs designed to help small businesses gain preferential access to federal procurement opportunities.

- *Database 6* was the member directory of registered Hispanic-owned businesses in the San Antonio–New Braunfels Metropolitan Area provided by the Greater San Antonio Chamber of Commerce (GSACC).
- *Database 7* was provided by the Texas Statewide Historically Underutilized Business (HUB) Program of the Office of the Texas Comptroller of Public Accounts. It includes information obtained from 250 organizations in Texas as part of the Texas Disparity Study. These businesses are most likely prospective Hispanic-owned HUBs or businesses that are ready, willing, and able to do business with State agencies and State higher education institutions.
- *Database 8* was purchased from The List Company (TLC), an aggregator list company that licenses from Dun and Bradstreet (Fortune 500 business-information licensing company), InfoUSA (data and marketing services company), CAS (database compiler), Equifax (credit reporting agency), and Axiom (database compiler).

Information regarding business name, full address (street address, city, and zip code), and full contact information (contact person, telephone number, fax number and available e-mail address) was obtained from each database for each business therein.

Questionnaire Development

Pre-tests

The questionnaire was developed in three stages. First, the BBR team developed and produced a first draft of the questionnaire. Certain questions similar to those from the Census Bureau’s Survey of Business Owners were included so that possible sample bias could be assessed. Second, the questionnaire draft was reviewed by TAMACC’s directors. Third, a revised version of the questionnaire was tested with a group of MBA students. In each stage, analyses of the draft questionnaire were undertaken and changes made to improve it.

Focus Groups

Once a draft questionnaire had been finalized, the Bureau of Business Research commissioned the University’s Office of Survey Research (OSR) to conduct three focus group interviews with owners or CEOs of Texas-based Hispanic-owned firms to test the efficacy of the questionnaire and the effectiveness of other survey components. The BBR provided OSR with contact information for approximately 300 Hispanic-owned companies in three Texas cities from which the focus group participants were recruited. OSR conducted focus group interviews in El Paso (9 participants), Dallas (6 participants), and San Antonio (9 participants). The firms represented by participants in the focus groups were 51 percent Hispanic owned. The firms represented a mix of company size (based on number of employees), industry, and gender ownership.

The goals of the focus group interviews were to:

- Assess the questionnaire that would be sent to Hispanic business owners and determine if (a) the questions were understandable, (b) the participants possessed the information to answer the questions, and (c) they were willing to answer the questions.

- Test the effectiveness of the mailing envelope, the survey invitation cover letter, postcard thank you/reminder, and postal mail follow-up letter.
- Identify key barriers to growth for Hispanic-owned businesses in Texas
- Determine what kinds of training and educational courses Hispanic businesses owners believe they need to help grow their companies.

Self-administered Mail Survey

The BBR mailed a survey to 13,809 Hispanic-owned businesses, but 1,503 were returned by mail because of incorrect addresses (out of scope), were out of business, or were non-profit organizations. Thus *12,306 surveys were mailed to correct addresses*. All mailing logistics were carried out by the University's Office of Survey Research.

Survey Procedure

The mail-out/mail-back phase of the BBR survey of Hispanic Businesses in Texas began in July 2011 (with the first questionnaire mail-out), and continued through December of 2011. The first mailing consisted of an introductory cover letter, a questionnaire, and a pre-paid (addressed) business reply envelope. This was followed by a reminder post-card and a reminder cover letter, questionnaire, and pre-paid (addressed) business reply envelope. Hence three communications were initiated with the sampled businesses.

Completed questionnaires received after December were not coded into the database and, thus, not analyzed. In general, firm-related communications focused on the importance of the survey and the need for a response, the sponsoring institution, and the confidentiality of responses.

Response

The response rate to the survey instrument is estimated to be 27.2 percent. The response rate is estimated as the number of valid responses received from HOBs divided by the number of surveys mailed to HOBs with correct addresses. The BBR received 3,592 valid surveys from respondents—3,261 from *Hispanic-owned businesses* (HOBs), 233 from respondents that were not HOBs, and 98 from respondents that could not be classified in either of these two groups because the survey was returned with no Case ID or arrived after December 2011. The response rate is the ratio of valid surveys received from HOBs (3,261) to the total number of surveys mailed with correct addresses to HOBs (12,306) after non-HOBs (233) and non-identifiable entities (98) were removed (11,975). This translates into a Hispanic-owned businesses response rate of 27.2 percent (3,261/11,975).

Analysis

Completed questionnaires were checked for consistency and redundancy, and responses entered into a data base for analysis. Codes used for open-end question responses were derived following development of a comprehensive categorization scheme. The resulting data were analyzed using standard techniques.

Appendix C: Selected Insights from Hispanic Business Owners

In order to highlight some of the survey findings and provide a more textured perspective of the experiences some Hispanic business owners have had, four short summaries of discussions with Texas Hispanic business owners are presented. Firms were not selected randomly from among our survey respondents; instead, the BBR research team made a deliberate attempt to include ventures that:

- represented different industry sectors
- represented a variety of firm sizes and years in business
- and that had training needs that were among the most common as reported by our survey respondents

The purpose of the summaries presented here is to illustrate the survey findings with actual examples of Hispanic-owned businesses in Texas. Hopefully, the reader will come away with an appreciation of the strengths of Hispanic entrepreneurs, a deeper understanding of the challenges they face, and perhaps ideas for how to start or grow their own firms.

Action Gypsum, Houston Lenin Juarez, co-owner

Established in 2003, Action Gypsum, which provides wallboard to residential and commercial customers, has 72 employees. Mr. Juarez and his business partner had worked for 23 years in a similar company, where they learned the business and experienced its growth from a startup in 1980, before the two of them started out on their own. Action began with 15,000 square feet of space in one location, and in nine years it has grown steadily, with operations today in four cities across Texas (Houston, Pearland, Bryan-College Station, and most recently, San Antonio). Mr. Juarez says that “we will continue to grow, but in a cautious way, and digest the growth at a reasonable pace.”

Mr. Juarez and his partner started Action with \$300,000 between the two of them and were turned down initially for more funding and credit from big banks. Then Mr. Juarez had a casual conversation with someone in his Bible study class, a banker, about his frustration. The man asked to see Action’s business plan and on the spot offered him a credit line from his smaller bank. In the ensuing years, Action’s credit line has expanded as the company has grown, and now the company has financial needs that a smaller bank might not be able to continue to provide for much longer. Recently, four large banks very aggressively sought AGS’s business.

He believes that the service he provides to his customers – whether they are walk-in customers, general contractors, or subcontractors – is Action’s most significant competitive asset. “We spend a lot of time and resources maintaining a high level of service, training our employees to be receptive and responsive to our customers.” As an independent business, Action’s biggest challenge is competing with national chains. Service is the way he competes with them, which, with their substantial size, are not as nimble as he is. “We can strike and then pull back,” he says, although the larger he gets, the more like the nationals he becomes.

Mr. Juarez, who emigrated from Mexico with his parents at the age of 11, has a law degree and work experience with the federal Office of Economic Opportunity's Housing Assistance Council, whose mandate is to improve rural housing for the poorest of the poor. He remains on the Council's Board. For an entrepreneur, he says, sometimes his professional education gets in the way. "You think you're too good to do some of the things a startup needs. For six months after we started Action Gypsum, I had to clean our restrooms, which is tough to do when dealing with construction folks."

When asked about what courses or training he wishes he would have had taken prior to starting his own business, Mr. Juarez says that he should have better understood financial statements and accounting when he started out. Today, he says, "we send our employees to workshops sponsored by the National Association of Credit Managers to learn about financing and credit. These have been incredibly worthwhile for my staff over the years." What is more, he thinks that while many Hispanic entrepreneurs instinctively know how to survive in a business and manage some financial risks, "understanding larger financial transactions and negotiating large credit lines with banks takes more specialized training in accounting," he says. "It's one thing to instinctively understand when not to extend credit to a customer, or how to avoid overpaying for materials. But it's quite another thing for immigrant entrepreneurs to learn how to negotiate credit lines with lenders."

Another problem he sees among Hispanic entrepreneurs is trying to grow their businesses too fast. "I see more businesses fail because of too much business instead of not enough. They bite off more than they can chew and cannot handle their cash flow properly."

Mr. Juarez and his business partner have strong opinions about involving family members in their firm. The company for which he worked in the 1980s employed many of the owner's family members, and he learned from his experiences there that it makes good business sense to limit the number of relatives involved in the business. "It [having family on staff] gets in the way of recruiting talent. Other employees see that they are not competing on a level field with the relatives of the owner." And if there's a failure in the business, "you'll take the whole family down with you," if family is over-involved in the business.

Since 1980, Mr. Juarez has watched the Texas construction industry become dominated by Hispanics. For his employees, speaking Spanish is essential, but so is the ability of predominately Spanish speakers to be able to communicate in English with clients and customers. He believes that the need to speak Spanish in his industry will decline over time, as more Hispanics in construction become more comfortable with communicating in English.

He thinks management, finance, and accounting training could help his employees and other Hispanic-owned firms comply with tax regulations and requirements that seem arcane at first. "This training would also help Hispanic entrepreneurs slow down, to absorb opportunities at a reasonable rate, and not be overwhelmed."

Taboada Research Instruments, San Antonio

John M. Taboada, co-founder and Vice-President

Taboada Research Instruments (TRI) was founded in 1999 by Dr. John Taboada and his son, Dr. John M. Taboada. TRI provides customized solutions on advanced laser, optical, and robotic instrumentation for clients in military, medical, and industrial markets. It employs only three people (the two founders and a machinist) but subcontracts other labor.

The founders established the company around a laser-beam technology that they co-invented and patented. “Their invention takes a single laser beam, and with no moving parts, the single laser beam is projected in almost 360 degrees”, explains Dr. John M. Taboada. The original target market was for construction tools, but it was licensed first to an archery company to serve as a bow-tuning device. At the time of the company’s founding, John M. Taboada was still in graduate school, and his father was still a full-time civilian researcher at Brooks Air Force Base in San Antonio (retired in 2002). Both started working full time at TRI in 2003 with the main purpose of commercializing their invention, but along the way they started to address other specific problems posed by their customers and were able to grow their product line.

According to the younger Taboada, the company’s strongest competitive asset is “the ability to propose and deliver a solution in a short timeframe” to serve the customers’ needs. TRI has expertise on CNC machining and devotes this capability to research and development (R&D) activities, whereas most machining elsewhere is dedicated to normal shop-floor production. Along with this flexibility, another advantage of TRI is its ability to execute ideas. On the other hand, its most serious challenge currently is their customers being able to *afford an R&D budget*. Not surprisingly, innovation is core to TRI, and the internal research that it can afford is supplemented by collaboration with researchers based at universities, health science centers, and hospitals. Given Dr. Taboada’s expertise, it cost TRI almost nothing to patent in the United States and since it takes too many resources to try to commercialize new technologies, a licensing/sale model is more adequate for TRI.

Dr. John M. Taboada is a first generation American, and his parents moved from Mexico to the United States when they themselves were young. He is bilingual and has a technical background in physics, as well as graduate degrees in electrical engineering and law from UT Austin. Dr. Taboada is a serial entrepreneur. During law school, he operated a small company on the side, and currently his law firm specializes in intellectual property issues. In addition, he started a yogurt business in San Antonio that bought milk from a local dairy, processed the yogurt very naturally (no sugars nor stabilizers), and then sold it to Whole Foods. In his own words, “there is something about working for myself that it is gratifying. It has its ups and downs as far as when and how you get paid, but overall it is the best option for me.”

Dr. Taboada’s suggestions for aspiring Hispanic entrepreneurs center around financial training, in order to understand “how markets really work and how funding deals are done.” The best advice he can provide them is “know your market: your product can be great, but that does not mean that it will be quickly adopted in the marketplace.”

When asked about TRI's most important training needs, Dr. Taboada mentions *communication* in general, and networking through in-person presentations and connections, in particular. In addition, he believes that training on how to enhance the *relationship with customers* would also be beneficial. Finally, Dr. John M. Taboada says that another value-added training need would be “doing business in Asia, namely making business connections in China and being able to utilize those [connections] to internationalize businesses, no matter if they are large firms, or small ones like TRI.”

Lone Star Coffee, Houston

Paul Garcia, co-owner

Established in 2002, Lone Star Coffee is an office coffee service provider with 40 employees based in Houston but with Dallas, Tyler, San Antonio, Austin operations. It provides coffee, juices, water, and ice, including vending and other machinery, to large local businesses. Mr. Garcia jointly owns the company with his brother.

Mr. Garcia said Lone Star's biggest current challenge involves *motivating and retaining talent*. “Any company is only as strong as its employees. For a small- to mid-size company like Lone Star, we've found it is sometimes difficult to find and keep top-notch employees. Sometimes it feels like people want to work in a bigger company than ours, and we have a difficult time competing with larger firms that appear to offer a more stable environment with more glamorous offices and locations.”

Mr. Garcia, a third-generation Hispanic, is a CPA with an MBA in International finance. Prior to entering college (he was the first in his family to attend a 4-year school), he had the benefit of absorbing many lessons watching his father run his own barbershop. “I watched him manage his business every day growing up, and he knew the value of persistence, preparation, and savings. He wasn't so sure college would work out for me, so he insisted I learn a trade and sent me to barber school,” Mr. Garcia said. Before starting on his professional career path, Mr. Garcia had an aerobics studio and a weekend hall for rent, but they were both very small operations.

After going to grad school, he had a job as a credit manager at National Oilwell Varco and then went to work at a couple of small companies. Yet it was his five years in Enron's treasury group that seems to have been most formative for launching his own firm. “The best training I received was at Enron. I had taken a job there that I wasn't sure I could do, but it was great for my confidence. It was sink or swim in a big corporate environment. I'm not sure that I would have had the confidence in myself to start my own company without that experience in a big company. After succeeding at Enron, despite the company's failure, I knew I could start my own company and be successful. Working through problems, being persistent, is the biggest lesson I learned there, to have the tenacity to get after it every day, and believe in myself. It is true that I have a wonderful educational background to help us deal with Lone Star's day-to-day business problems, but every entrepreneur needs to learn resilience.”

After Enron collapsed, his brother finally convinced him that they should start Lone Star together. “My brother had been floating the idea of starting the business for a couple of years, but it just was never the right time. After Enron, I could have returned to the corporate world, but I realized if I was going to work 60-80 hours a week, which is what I was doing at Enron, that I’d rather do it on my own, in my own firm, and work long hours for myself, something with no ceiling on it.” The two men brought a significant amount of their own savings to the firm at startup, which the banks they approached at the time required, but they also benefitted from funding from the Small Business Consortium in Houston (via the Small Business Administration) to collateralize equipment.

When asked what advice he might have for aspiring Hispanic entrepreneurs, Mr. Garcia says that “*understanding Anglo culture and business practices* is crucial. A Hispanic entrepreneur needs to understand his customer base, which is likely to include both Hispanics and Anglos, among other groups.” He thinks many Hispanic entrepreneurs sometimes become too entrenched in their own culture and should broaden their markets to reach new customers to be successful. Another piece of advice he has for new Hispanic entrepreneurs is to *better understand how to finance a startup* by taking training or other short courses in financial management.

Among the top training needs he has for Lone Star Coffee is *how to recruit and motivate his employees* more effectively. “We hire a lot of young people in our warehouse, including Hispanics, and I am always looking for new ways to motivate them.” Also, he believes his employees and managers would benefit from a *short course on understanding the importance of cost containment and control*. “Everything is a cost, from time spent on projects, to widgets in my warehouse. Cost control impacts our profitability every hour, every day.”

The Plaza Group, Houston Randy E. Velarde, Founder

Established in 1994 “under a set of unique circumstances,” as the co-founder, Mr. Velarde, puts it, The Plaza Group (TPG) currently has 25 employees. TPG provides chemicals like solvents, intermediates, and polymers for various applications in the housing, automotive, and construction industries.

After his chemical engineering degree at the University of New Mexico, Mr. Velarde joined Shell Chemical in sales and business management. After ten years with Shell, he joined Texaco Chemical and was there for about three years as a business manager. The group of products that he managed was not among a collection of Texaco Chemical assets that were sold to Huntsman in late 1993, so Mr. Velarde and three partners persuaded Texaco management to spin off these products to their new startup, TPG. Each partner invested \$50,000-\$75,000 at the time, and Mr. Velarde bought the other co-founders out two years later. As a petrochemical marketing company, TPG started with a single \$2 million contract with Texaco Chemical but soon realized that their business model could have application to many other refinery and petrochemical businesses in the United States and abroad. Today, TPG projects sales of around \$300 million for 2012.

Mr. Velarde believes that the company's strongest assets are a great team and a unique business model. In his own words, "we have a nice blend of younger and experienced employees who are committed to the company's core values, as well as a business model that is a creative solution for many producers for their non-core products". The most critical challenge that TPG faces today is perhaps "having more opportunities coming in than we can reasonably evaluate." This happens currently "in a troubled economy. In a downturn, companies look at TPG as a way to trim costs and increase profit margins to keep the shareholders happy."

He is convinced that his degree in chemical engineering was very helpful in starting his business, but he would have gone back to school for an MBA even earlier, because "while we can 'walk the walk' of chemical and refinery products, sometimes we have more difficulty with 'talking the talk' on the business side of things." Mr. Velarde says, "balance sheets and income statements and various other financial measures were not taught when I was in engineering school and are vital skills for running a business."

Mr. Velarde, a Hispanic born in New Mexico, says that his number one piece of advice for aspiring Hispanic entrepreneurs is to develop their **communication** skills. "The ability to communicate both verbally and in writing is extremely valuable for being successful these days," he believes. However, "real entrepreneurs are able to detect opportunities and address those market needs." The other element he thinks that "schools like UT are doing well is making real-life experience a part of the curriculum." He strongly endorses "understanding the books, but the ability for students to experience how real businesses operate is very valuable."

Although TPG is Mr. Velarde's first business, he has always had an entrepreneurial spirit. In fact, he has encouraged his wife to try her hand with her own business, which she did. Even though the venture did not last long, he says, it served as a good learning opportunity for the both of them.

TPG embraces innovation and relies in "engaging each and every team member in business development activities," states Mr. Velarde. However, the firm "engages with universities to provide internships for students." For the future, his vision is to engage with universities to provide more internship opportunities and perhaps help with expanding the business model itself.

When asked about TPG's most important training needs, Mr. Velarde returned to the theme of **communication**. "Some people are natural communicators. The ones who are not, like myself, need to educate themselves on how to write and speak effectively," he says. Finally, he says he would like to find an academic partner in the area where he could send TPG employees for business training. This partner could send interns to TPG for vital real-world experience. ■