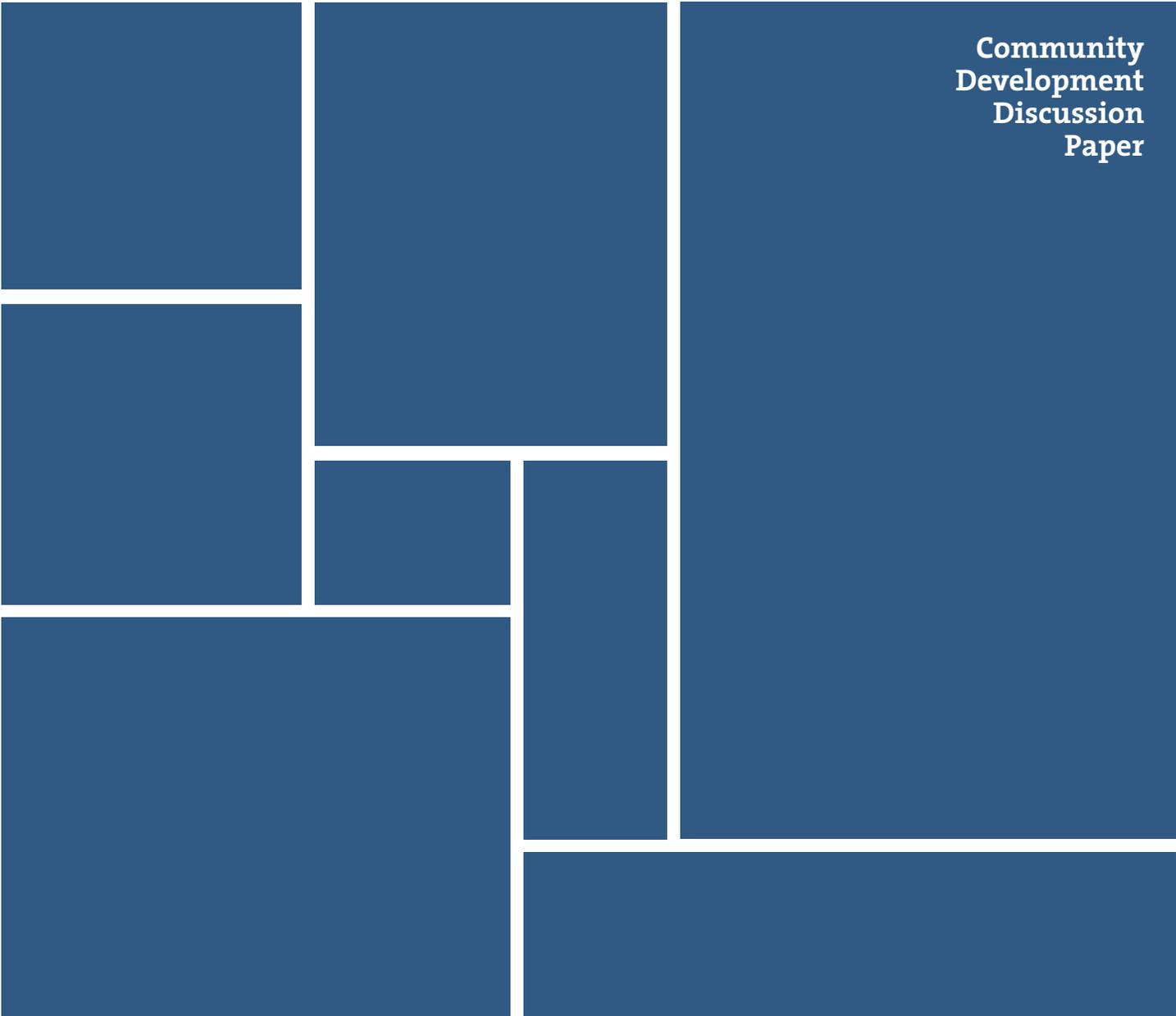


# Small Businesses in Springfield, Massachusetts: A Look at Latino Entrepreneurship

Ana Patricia Muñoz with  
Lynn Browne, Sol Carbonell, Prabal Chakrabarti, DeAnna Green,  
Yolanda K. Kodrzycki, Anna Steiger, Richard Walker, and Bo Zhao



**Community  
Development  
Discussion  
Paper**

## **Small Businesses in Springfield, Massachusetts: A Look at Latino Entrepreneurship**

.....**Ana Patricia Muñoz**

.....**with Lynn Browne, Sol Carbonell, Prabal Chakrabarti, DeAnna Green,  
Yolanda K. Kodrzycki, Anna Steiger, Richard Walker, and Bo Zhao**

The views expressed in this paper are solely those of the authors and do not necessarily represent those of the Federal Reserve Bank of Boston or the Federal Reserve System.

This paper, which may be revised, is available on the web site of the Federal Reserve Bank of Boston at <http://www.bostonfed.org/commdev/pcadp/index.htm>

One of the most pressing challenges for Springfield is increasing the labor force participation and employment rates of its residents. Recent figures from the American Community Survey<sup>1</sup> show that the city's employed population as a share of the working-age population was only 52 percent compared with 64 percent for the state as a whole. The city's labor force participation rate is extremely low even when compared with other older industrial cities in the region. In Springfield's Latino neighborhoods less than half of the working-age population is in the labor force.<sup>2</sup> Springfield residents face a number of barriers when looking for jobs, including low educational achievement rates, a lack of connections to job networks, and a lack of access to transportation to work sites outside the city. These challenges are particularly significant among the Latino population, which accounts for more than a third of the city's residents. In previous research, we studied the causes of Springfield's low employment rates.<sup>3</sup> This study focuses on business ownership as a potential strategy for job creation in the city and for income generation in impoverished areas.

We seek to understand the prominence of self-employment within Springfield, especially among Latinos, and identify the major barriers small business owners face. Given the extremely low labor force participation and employment rates in the city, particularly in impoverished neighborhoods, self-employment might be the best alternative to help residents make ends meet. As Fairlie and Woodruff (2007) point out, "business ownership is the main alternative to wage and salary employment for making a living, and thus has important implications for earnings and wealth inequality." In addition, successful businesses, even if they are small scale or home based, provide goods and services to the community that would otherwise be lacking.

In this report, we look at sources that have been traditionally analyzed in entrepreneurship studies: the census's self-employment figures and the survey of business owners' data. In addition, we examine trends in the number of small business establishments

---

<sup>1</sup> Figures are from the 2006–2008 American Community Survey three-year estimates.

<sup>2</sup> The latest data at the neighborhood level is from the 2000 Census. In 2000, Springfield's labor force participation rate was 59 percent while the rates in the South End, Brightwood, and Memorial Square neighborhoods were 49 percent, 47 percent, and 34 percent, respectively.

<sup>3</sup> See Kodrzycki and Muñoz et al. (2009); Green et al. (2010); and Plasse et al. (2009).

located in the poorest areas of the city and complement our understanding of Latino entrepreneurship by conducting interviews of Latino business owners.<sup>4</sup>

Given that the data on entrepreneurship is limited, we look at all the available sources that provide information on small businesses at the city level and organize this report accordingly. The report is structured in four sections that provide information on entrepreneurship from various angles, allowing us to draw a more complete picture of Latino small business owners. First, we conduct a brief literature review on factors motivating entrepreneurship, on the elements explaining gaps in entrepreneurship rates and outcomes, and on the effects of entrepreneurship on upward mobility. Second, we assess the importance of Latino entrepreneurship in Springfield, looking at self-employment and minority business-ownership rates at the city level and comparing Springfield with other similar cities in New England. Third, we look at small business data available at the city and neighborhood level, chiefly in areas with a high concentration of Latino population. This data does not provide demographic information about business owners but offers details about what types of businesses are located in predominantly Latino neighborhoods. Historical data shows how dynamic the small business sector has been in Springfield. Finally, we summarize the most important characteristics and challenges of Latino businesses in Springfield based on interviews of small business owners in the city.

As a brief literature review will show, self-employment is a good alternative to landing a job, particularly for low-educated males who account for a large percentage of the Latino population in Springfield. In this city, the number of Latinos working in their own businesses has been growing over the years. Nevertheless, gaps between Latino and white firms in terms of self-employment rates and business outcomes persist. Springfield has similar self-employment rates than comparison cities in New England but lags in the number of Latino-owned firms relative to the share of Latino population. The total number of establishments in some of the most impoverished areas of the city that also have a high share of Latino population has not

---

<sup>4</sup> As a caveat we should mention that, although anecdotal evidence shows that the informal sector is an important source of employment in Latino neighborhoods, the data sources used in this report do not provide information on informal businesses. Some workers that categorize themselves as self-employed might own informal businesses but it is impossible to identify them.

increased from 1998 to 2007. As has been observed in other parts of the country, Latino entrepreneurs in Springfield finance their businesses with their own savings, employ mostly their own family members, play an important role in the community, and look at entrepreneurship as the only opportunity to generate income that would allow them to make ends meet and finance their children's education. The role of Latino companies goes beyond being an important source of employment. Latino firms contribute to the revitalization of poor neighborhoods, occupying and maintaining storefronts that otherwise would be vacant and providing goods, services, and help to Latino residents.

The study's most important findings are:

- Blacks and Latinos are disadvantaged by their financial circumstances, education, exposure to entrepreneurship, and possibly by discrimination in their opportunities to start up and run successful businesses.
- Running a successful small business is difficult; the failure rate is high. However, the evidence indicates that entrepreneurship provides especially good opportunities for less-educated men, a group that is increasingly disadvantaged in the labor market. Also, entrepreneurship is a valuable component of neighborhood revitalization.
- Despite the challenges and hard work, the number of Latino-owned firms has been increasing and Latino entrepreneurs have been able to grow their businesses and support their families.
- Springfield has self-employment rates similar to that of comparison cities in New England but lags in the number of Latino-owned firms relative to the share of Latino population. In the past ten years, the number of Latinos self-employed in the city grew by 150 percent, a much faster rate than wage/salary workers.
- From 1997 to 2002, despite a considerable increase of the Latino population in Springfield, the number of Latino-owned firms declined slightly. However, in the next five years the number of Latino-owned firms rose significantly and at a much higher rate than the increase in comparison cities.

- Latino neighborhoods in Springfield have not experienced any increase in the overall number of small businesses in the last decade.
- In Springfield as in the rest of the country, Latino-owned companies are smaller, are less likely to have employees, and have lower annual sales compared with all nonpublic companies.
- Latino-owned businesses play an important role in providing additional services and support to Latino residents. Nevertheless, existing funding and technical assistance programs that are generally available to small businesses appear not to be reaching Latino entrepreneurs in Springfield, which tends to inhibit their survival and growth.
- Existing organizations and programs need to reach out aggressively to Latino entrepreneurs.
- Further collaboration among business owners would help transmit their needs to city officials and other organizations and better address the barriers they face.
- Local partnerships between the city, nonprofit organizations, and larger employers are important to support small business formation and growth. Strategies geared to Latino entrepreneurs that address their particular needs are essential.

## **Literature Review**

There has been much debate regarding the role of entrepreneurship in the economy and as an engine of upward mobility. Some argue that promoting self-employment is an effective way to increase labor force participation and job creation while others assert that more self-employment may not be better, as other forms of employment offer higher potential growth in pay. The analysis becomes even more complex when one focuses on low-income communities and looks at racial disparities. Furthermore, despite the array of research on this topic and the recognition of the importance of small businesses in the economy, there is not a consensus on how to measure entrepreneurship. Some studies rely on self-employment data, others on business ownership, and others on Internal Revenue Service (IRS) reports. Results vary widely depending on the source and methodology.

## Why Are People Drawn to Entrepreneurship?

Evidence suggests that, in the industrialized countries, many individuals who are currently employees would prefer to be self-employed (Blanchflower and Oswald 1998)<sup>5</sup> rather than salary workers and that self-employed workers are more satisfied than wage workers. Friedman (1986) recalls that “each segment of the population includes some proportion of people temperamentally disposed to be entrepreneurs. But the extent to which they become entrepreneurs depends upon the environmental support—cultural, financial, and educational.” Why are actual self-employment rates not higher? What motivates individuals to become self-employed? Is entrepreneurship driven by cultural or economic motives?

Factors motivating entrepreneurs to become self-employed can be classified in two groups. On the one hand, workers may choose to become self-employed because they see entrepreneurship as providing better opportunities (pull factors). On the other hand, some workers might be forced into self-employment (push factors) as they face major barriers in the wage/salary sector (for a detailed description of pull versus push factors, see Shinna and Young 2008). There is mixed evidence on which of the two factor groups is prevalent.

An important characteristic of self-employment rates in the United States is that immigrants tend to have higher entrepreneurship rates than U.S. born workers. Immigrants groups might engage in entrepreneurial activities because it is part of their cultural makeup (cultural theory). An alternative explanation (disadvantage theory) is that self-employment is a survival strategy for groups that find obstacles in the formal labor market that stem from poor English skills,<sup>6</sup> legal status, education attainment, or discrimination. Residential segregation has been also considered a motivating factor for entrepreneurs particularly among immigrant communities, as geographic concentration increases the demand for particular goods and services in underserved areas. However, Fischer and Massey (2000) show that beyond moderate levels, residential segregation

---

<sup>5</sup> According to a survey, 63 percent of Americans would like to be self-employed, a much higher percentage than the actual self-employment rate.

<sup>6</sup> Although some evidence suggests that language problems have not been pushing individuals into self-employment (Hout and Rosen 2000; Fischer and Massey 2000).

actually decreases entrepreneurship, as segregation is closely related to high poverty rates that limit entrepreneurial activity. According to their findings, African Americans and Puerto Ricans<sup>7</sup> are doubly disadvantaged as they show unfavorable structural characteristics (in terms of education, age, assets, family structure) and tend to live in racially segregated areas.

Researchers have also focused on the influence of industry composition in determining self-employment rates given that entrepreneurship rates vary widely across sectors. The industry with the highest self-employment rate is, by far, construction, followed by high-skilled information services and retail trade (Glaeser 2007). However, Glaeser shows that industrial differences cannot be entirely responsible for the variation in self-employment across metropolitan areas.

Finally, factors motivating self-employment vary by gender as well. Women's decisions to become self-employed appear to be much more heavily influenced by non-pecuniary characteristics of self-employment (such as flexible work schedules) than men's decisions (Boden 1999).<sup>8</sup>

Regardless of the motivation to become self-employed, two facts stand out when comparing self-employment by race/ethnicity: Gaps in self-employment rates between whites and blacks and Latinos are large and have not changed much over time, and white-owned business generally have better outcomes (more employees, lower closure rates, higher salaries, and higher average sales) than black and Latino-owned businesses. What factors explain gaps in self-employment? Why are white businesses more successful than black-owned or Latino firms?

In the following section we review empirical research explaining gaps in self-employment between whites and blacks and Latinos.

---

<sup>7</sup> Puerto Ricans are not considered immigrants. As U.S. citizens they do not face the obstacles of being undocumented, but they share similar characteristics with many Latino immigrants in terms of language barriers, low educational attainment, and discrimination.

<sup>8</sup> Boden finds that, overall, about 39 percent of women cited flexibility of schedule, child-care problems, or other family/personal obligations as primary reasons why they chose to become self-employed. In contrast, only about 14 percent of men cited these reasons. The enjoyment of being one's own boss is the single most commonly cited reason for becoming self-employed by both men and women.

## Factors Explaining Gaps in Entrepreneurship Rates and Outcomes

Lower self-employment rates among Latinos and blacks are driven by fewer residents transitioning to owning a business and by more people leaving self-employment. Fairlie (2006) shows that each year a relatively higher number of black and Latino entrepreneurs leave self-employment and that minorities show higher transitions probabilities from self-employment to nonemployment. According to Fairlie's research, blacks' and Latinos' exit rates, that is, the number of workers leaving self-employment each year as a percent of the total self-employed, are at least 40 percent, whereas whites' exit rate is 27 percent. In addition, blacks and Latinos are less likely than whites to start new businesses. Interestingly, among blacks and Latinos the likelihood of entering self-employment from nonemployment is lower than among whites. According to Fairlie, "this finding contrasts with disadvantaged theory, which states that disadvantages such as poverty, unemployment and discrimination push certain groups into self-employment instead of wage/salary work." Indeed, despite high jobless rates among blacks and Latinos, the majority of entrants into self-employment come from wage/salary employment.

Differences in self-employment rates between Latinos, blacks, and whites can be explained by a number of factors. First, Latinos and blacks have fewer assets than whites, making it difficult for them to find start-up capital and finance their businesses' ongoing financial needs.<sup>9</sup> For instance, an entrepreneur who owns a house might be able to borrow against the value of his or her home through a home equity loan or use a home equity line of credit for business cash needs. Second, disparities in educational rates have proven to be important determinants of gaps in self-employment<sup>10</sup> and business outcomes. Black and Latino

---

<sup>9</sup> Fairlie (2006) shows that the largest factor explaining disparities among blacks', Latinos', and whites' self-employment is racial differences in asset levels. Relatively low levels of assets explain more than half of the entry rate (number of workers who become self-employed every year as a percent of the total self-employed) gap for native-born Latinos and slightly less than half of the gap for immigrant Latinos. Fairlie and Woodruff (2007) find that low levels of education and wealth explain the entire gap between Mexican immigrants and non-Latino whites in business formation rates.

<sup>10</sup> Fairlie (2006) points out that entry into business ownership from nonemployment increases with education. Only 1.6 percent of nonemployed high school dropouts start a business the following year compared with 4.1 percent of nonemployed college-educated individuals. At the same time, exit rates from self-employment decrease with education, contributing to the positive relationship between self-employment and education.

populations show much lower high school and college completion rates than whites. Lower educational attainment means weaker networks, lower management and business skills, and limited access to formal financial resources.

Third, intergenerational links play an important role in determining self-employment. Children of entrepreneurs are more likely to become entrepreneurs themselves.<sup>11</sup> This could stem from parents instilling the entrepreneurial spirit into their offspring or from the inheritance of management skills<sup>12</sup> and business assets.<sup>13</sup> As a result, the historically low rates of self-employment among blacks and Latinos self-perpetuates to their low current rates. Empirical evidence also shows that previous experience working in a family-owned business increases the likelihood of self-employment and improves the business outcomes (Fairlie and Robb 2008).

Finally, discrimination in access to credit has been cited as a possible explanation for low self-employment rates among blacks and Latinos. Barth et al. (2005) conclude that “there seems to be agreement that discrimination is a barrier to entrepreneurship and that the existence of entrepreneurial firms in a region helps spur the establishment of more such firms.”

An extensive literature exists on the determinants of entrepreneurship gaps, but less research has been conducted on the gaps in business outcomes between minorities and whites. Fairlie and Robb (2008) analyzed the factors that determine the success of entrepreneurs’ businesses measured by profits, number of employees, and survival rates. They concluded that having a self-employed family member per se does not have significant effects on business success. In contrast, prior work experience in that family member’s business has a large positive effect on minority-owned business outcomes. Start-up capital and business owner experience

---

<sup>11</sup> Hout and Rosen (2000) find that, for the population as a whole, having a self-employed father doubles the probability that an individual will be self-employed. The study confirms that family structure and father’s employment play important roles in determining self-employment but do not explain entirely the gaps between minorities and whites.

<sup>12</sup> Dunn and Holtz-Eakin (2000) show that the correlation between the parents’ and children’s self-employment is strongest in the presence of specific business success by the parents, suggesting that parents transmit to their children entrepreneurial skills, as opposed to a preference for self-employment. Dunn and Holtz-Eakin also show that even in occupations with the highest rates of self-employment, the children do not necessarily choose the same occupations as their parents. In fact, a majority of self-employed sons entered occupations other than those of their fathers.

and education<sup>14</sup> also play an important role in determining how successful a business is. Acquiring skills specific to a type of industry through prior work experience is useful in starting and running a successful business, even more than just managerial experience.

### Effects of Self-employment on Income and Upward Mobility

Entrepreneurs in low-income communities not only provide a source of income for their households and potentially employ low-income residents from their neighborhoods; they also provide goods and services that might otherwise be lacking in those communities. However, research on the effects of self-employment on income is mixed and varies depending on the socioeconomic group analyzed. Some studies that look at overall self-employment tend to indicate that “the majority of micro entrepreneurs who start off poor remain poor” (Acs and Kallas 2008). The lack of skills that prevent low-income residents from finding high-wage jobs, language barriers, and low educational attainment, for example, also prevent entrepreneurs from having successful businesses.<sup>15</sup> However, research that focuses on certain demographic and income groups suggests that self-employment is particularly beneficial for men from low-income families.

Robles and Cordero-Guzmán (2007) find from their extensive literature review on Latino self-employment that “for disadvantaged male youth, self-employment produces higher earnings than wage-work; however, these results do not hold for female disadvantaged youth.” Business ownership for less-educated youth appears to be a good option as “self-employed experience faster earnings growth on average than wage/salary workers after a few initial years of slower growth” (Fairlie 2000). Similarly, Holtz-Eakin et al. (2000) show that self-employment positively affects income mobility for low-income individuals and that entrepreneurship was a more successful long-term strategy for blacks than for non-blacks. Focusing on young black and Latino populations, Fairlie (2004) finds that self-employed men earn on average more than

---

<sup>14</sup> Businesses owned by college graduates have 25 percent higher sales on average than businesses owned by high school dropouts.

<sup>15</sup> Olson et al. (2000) suggest that, although income differences between Latino self-employed and Latino wage/salary workers are driven by worker characteristics more than the difference in return of those characteristics in the two sectors, self-employment is a viable economic option for Latinos.

wage/salary workers. His estimates suggest that Latino men who are self-employed have lower earnings than wage/salary workers at the beginning of their work lives but experience a higher income growth rate and show higher earnings after nine years. Fairlie adds that “this pattern may also explain why Hispanic men have relatively low rates of self-employment as many may not be able to survive the initial years of relatively low earnings.”<sup>16</sup>

Lofstrom and Bates (2009) estimate that self-employed Latinas earn more than nonminority white female entrepreneurs after controlling for variables such as education, labor market experience, marital status, and family structure. However, self-employed Latinas earn slightly less than similar Latinas in wage/salary work. According to Lofstrom and Bates, this suggests that Latina entrepreneurs’ “perceptions of their opportunities in the larger salaried sector are inaccurate and/or that they choose self-employment for non-pecuniary reasons.”<sup>17</sup>

Beyond being a source of income, minority-owned businesses play other important functions in underserved communities. Delgado (1997) described the important role of Latino-owned commercial establishments in the community as they can become nontraditional social service centers. In addition to selling goods and services, these businesses serve the community by providing credit, sharing community-related news, providing information about and referral to social services agencies, assisting in filling out government forms, and providing cultural connectedness to the homeland. Latino business owners are also “an excellent community resource to be tapped for agency boards, advisory committees, task forces, and commissions.” Delgado argues that “an ethnic business represents a barometer of the extent to which a community can or is willing to support ‘its own’.”

To summarize, self-employment can be motivated by pull (better opportunities) or push factors (barriers in the wage/salary sector). Among an immigrant population, self-employment could

---

<sup>16</sup> Fairlie cautions that his model does not control for the possibility of a selection bias associated with workers choosing the sector that provides the fastest growth in earnings. Therefore, one cannot determine whether self-employment is a “better” option for the randomly chosen black or Hispanic. Nevertheless, the analysis of earnings patterns sheds light on the potential for self-employment to provide a source of economic mobility and self-sufficiency for at least some blacks and Hispanics.

<sup>17</sup> As a caveat, the authors indicate that since the estimates are not obtained on samples randomly drawn into self-employment, the “self-employment earnings effect” may not represent the causal effect of business ownership.

represent a survival strategy for new minority residents and goes up as minority concentration increases. As the Latino population continues to rise in Springfield, self-employment appears to be an option for new residents that face important barriers in the wage/salary sector. At the same time, the concentration of Latinos in some neighborhoods opens the doors for new businesses targeted to the needs of Latino residents. Self-employment emerges as a good alternative for low-income minorities, especially for less-educated males. However, residential segregation can also become an important barrier to the success of Latino business owners. Some neighborhoods with high concentrations of Latinos in Springfield are isolated from the rest of the city, impeding business growth. Research shows that the gap in self-employment rates between the white and Latino population is explained mostly by fewer assets, lower educational attainment, historically lower self-employment rates, and lower access to credit. In Springfield, as in most parts of the country, the gap in educational attainment and in assets between whites and Latinos is very pronounced, hampering small business formation. In the following sections we conduct an empirical analysis of self-employment and minority businesses in Springfield.

## **Latino Entrepreneurship in Springfield**

### Self-employment in Springfield

In this section we will analyze self-employment rates in Springfield and comparable cities in New England. Self-employment can be considered a proxy of entrepreneurship and is widely used in empirical research.<sup>18</sup> Although, commonly used, self-employment data is self-reported, includes many firms that do not have employees, and some businesses that are not incorporated. As of 2000, the self-employment rate<sup>19</sup> in Springfield was 5.3 percent compared

---

<sup>18</sup> Self-employment is reported by the U.S Census bureau in the decennial census, the annual American Community Survey (ACS), and the monthly Current Population Survey (CPS). Looking at self-employment data at the city level requires using the decennial census or the ACS three-year estimates because the size of the sample in the CPS or the one-year ACS is too small.

<sup>19</sup> The rate was calculated as a percent of the total employed population. Self-employed workers are defined as those individuals who identify themselves as self-employed in their own not incorporated or incorporated business on the class of worker question.

with 9.1 percent in Massachusetts and 9.7 percent nationwide.<sup>20</sup> Springfield's self-employment rate is similar to other peer cities in New England,<sup>21</sup> which showed, on average, a self-employment rate of 5.6 percent.

Self-employment rates vary across race and ethnicity.<sup>22</sup> In general, black and Latino rates are lower than those of whites and the reasons behind those gaps include lower educational rates, lower self-employment rates in past generations, weaker access to credit, and fewer assets. Compared with the nation as a whole and with Massachusetts, Springfield has relatively lower self-employment rates for each group. However, gaps between whites and blacks, and between whites and Latino, are not as large as in most comparable locations (See Table 1). Focusing on the Latino population, Table 1 shows that the self-employment rate in Springfield, at 3.3 percent, was half of the U.S. rate but very close to the average rate in New England peer cities. Interestingly, the difference between the United States' and Springfield's self-employment was much lower among blacks. In contrast to the nationwide trend, Springfield's non-Latino blacks and Latinos had about the same self-employment rates.<sup>23</sup>

---

<sup>20</sup> As of 2006–08, the rate increased to 10.5 percent in the United States, 9.8 percent in Massachusetts, and 6.6 percent in Springfield.

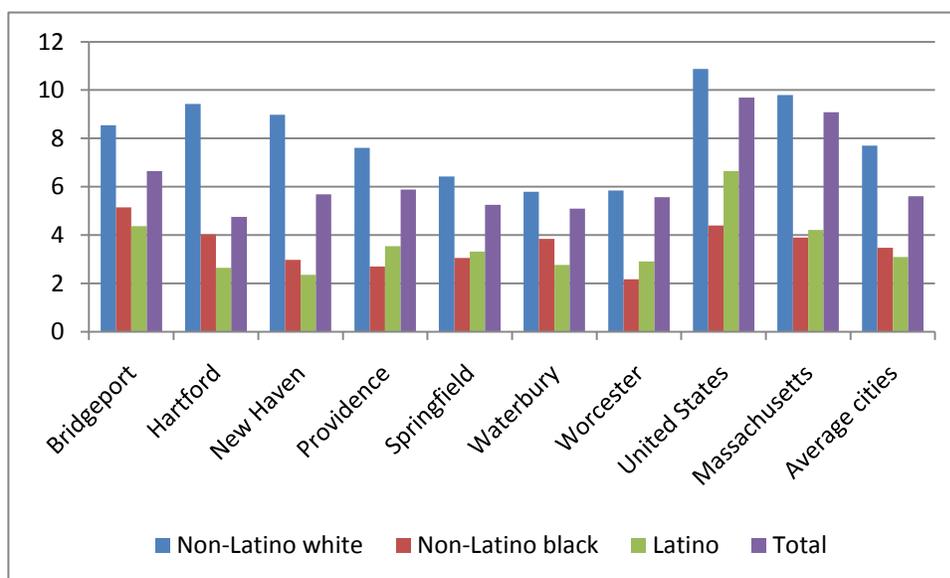
<sup>21</sup> The peer cities selected are Bridgeport, Hartford, New Haven, Providence, Waterbury, and Worcester. They were chosen based on size, manufacturing orientation, and regional significance as described in Kodrzycki, Muñoz, et al. (2009).

<sup>22</sup> Self-employment rate by race and ethnicity was calculated using 2000 census public use micro data (PUMS). The 2006–08 American Community Survey provides the most up-to-date data on self-employment, but an analysis by race and ethnicity is not possible given the small size of the sample by city.

<sup>23</sup> At the national level, self-employment among Latinos was 52 percent higher than self-employment among the black employed population.

Figure 1

**Self-employment Rates by Race/Ethnicity, 2000**



Source: U.S. Census Bureau (2000), Integrated Public Use Microdata Series (IPUMS)

Table 1

**Self-employment Rates by Race/Ethnicity, 2000**

	Non-Latino white	Non-Latino black	Latino	Total	Ratio non-Latino white/Latino
<b>Bridgeport</b>	8.5	5.1	4.4	6.7	2.0
<b>Hartford</b>	9.4	4.0	2.6	4.7	3.6
<b>New Haven</b>	9.0	3.0	2.4	5.7	3.8
<b>Providence</b>	7.6	2.7	3.5	5.9	2.2
<b>Springfield</b>	6.4	3.1	3.3	5.3	1.9
<b>Waterbury</b>	5.8	3.8	2.8	5.1	2.1
<b>Worcester</b>	5.8	2.2	2.9	5.6	2.0
<b>United States</b>	10.9	4.4	6.7	9.7	1.6
<b>Massachusetts</b>	9.8	3.9	4.2	9.1	2.3
<b>Average cities</b>	7.7	3.5	3.1	5.6	2.6

Source: U.S. Census Bureau (2000), Integrated Public Use Microdata Series (IPUMS)

From 2000 to 2006–08, the self-employment rate increased across race and ethnicity groups in the United States, Massachusetts, and Springfield (see Table 2). The change in Springfield was pronounced, particularly among minorities. In that period of time, the number of self-employed

Latinos in the city grew by a factor of 2.5 (or 150 percent), increasing from 357 to 912, while the number of employed Latinos who worked for wages increased by only 53 percent,<sup>24</sup> from 10,400 to 15,500. Among peer cities in New England, Bridgeport, Providence, and Waterbury also showed a much larger increase in the number of self-employed Latinos than in the number of salaried workers (see Appendix Table 1 for details). Although self-employed Latinos still represent a small share of the total employed, if this trend continues the gap between self-employed whites and Latinos will decrease considerably in Springfield. It is hard to tell from the data if such large changes were driven by fewer opportunities in the wage/salary sector for Latinos and/or an increase in the entrepreneurial spirit and support to become an entrepreneur, but it shows that in times of crisis, self-employment becomes an attractive alternative for the Latino population.

Table 2

**Change in Self-Employed Population and Self-Employment Rates in Springfield by Race/Ethnicity, 2000 to 2006–08**

	Self-employed				Works for wages and salaries				Self-employment rate		
	Number of employed residents		Change from 2000 to 2006–08		Number of employed residents		Change from 2000 to 2006–08		Rate		Change from 2000 to 2006–08
	2000	2006–08	Number	Percent	2000	2006–08	Number	Percent	2000	2006–08	Percentage points
<b>Non-Latino white</b>	2,300	1,939	-361	-16	33,508	26,203	-7,305	-22	6.4	6.9	0.5
<b>Non-Latino black</b>	346	670	324	94	10,969	11,667	698	6	3.1	5.4	2.4
<b>Latino</b>	357	912	555	155	10,405	15,887	5,482	53	3.3	5.4	2.1

Source: U.S. Census Bureau (2000), Integrated Public Use Microdata Series (IPUMS), Minneapolis: University of Minnesota, American Community Survey (2006–2008)

This analysis shows that self-employment rates across race and ethnicity groups in Springfield are similar to other comparable cities in New England but lower than in Massachusetts and the United States as a whole. Latino self-employment in Springfield increased substantially from 2000 to 2006–08, much more than Latino workers who earned wages/salary. However, as we

<sup>24</sup> The number of Latinos in the labor force increased by 56 percent in the same period.

will see later the percent of Latino-owned firms compared with the share of the Latino population in Springfield was slightly lower than that in the peer cities.

Self-employment rates reflect just one side of the entrepreneurship story. Looking at self-employment data, one does not know whether the entrepreneur owns a formal business or how large the business is. To complement our analysis, in the following section we look at the survey of business owners (SBO) that provides data on the number of businesses owned by minorities, including information on the number of employees and annual receipts.<sup>25</sup> One should note, however, that business owners do not necessarily reside in the place where the firm is located.

### **Minority-owned Businesses in Springfield**

Latino-owned firms in Springfield represent a larger share of total firms compared with the state and the nation, and the share has been growing over time. As of 2007, Latino-owned businesses accounted for 8 percent of all firms in the United States, but made up only 3 percent in Massachusetts. In Springfield, Latino-owned firms represented 12 percent of total firms located in the city.<sup>26</sup> The percent of Latino-owned firms compared with the share of Latino population in Springfield was slightly lower than that in peer cities (see Figure 3). Cities with similar shares of Latino population like Providence and Bridgeport reported having higher shares of Latino firms (19 percent and 14 percent of total firms, respectively).<sup>27</sup>

---

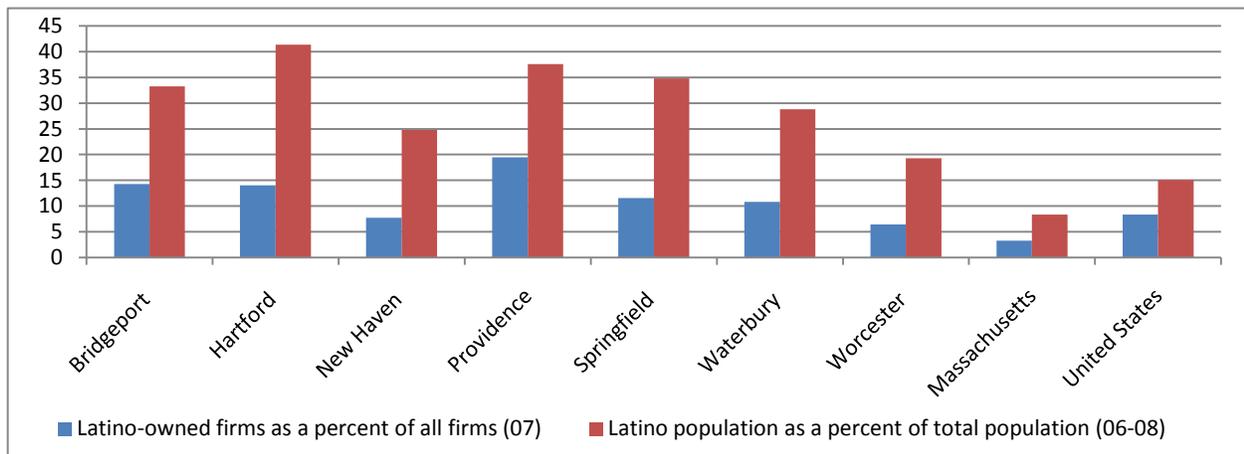
<sup>25</sup> The SBO includes all nonfarm businesses filing Internal Revenue Service tax forms as individual proprietorships, partnerships, or any type of corporation, and with receipts of \$1,000 or more. The SBO covers both firms with paid employees and firms with no paid employees. The SBO is conducted on a company or firm basis rather than on an establishment basis.

<sup>26</sup> As of 2006–08 Latinos accounted for 35 percent of total population in Springfield, 15 percent in the United States, and 8 percent in Massachusetts.

<sup>27</sup> See Appendix 2 to see the ratio: Latino population as a percent of total population/Latino-owned businesses as a percent of total businesses.

Figure 2

### Percent of Latino-owned Businesses in Springfield and Other Comparable Cities



Source: Survey of Business Owners (2007), American Community Survey (2005–2008)

In general, Latino-owned companies are smaller, less likely to have employees, and have lower annual sales compared with all nonpublic companies (see Table 3). In Springfield, 12 percent of Latino-owned firms have employees compared with 27 percent of all nonpublic firms.

Nevertheless, compared with the nation, the state, and most peer cities, Springfield shows a larger share of Latino-owned firms employing workers. By other measures, like average annual receipts, Latino companies in Springfield do worse than in the rest of the country. Nonpublic firms in the United States reported receipts three times larger than Latino-owned companies (see Table 4). In Springfield, the gap between Latino and all nonpublic firms was much larger, as the latter showed receipts seven times higher than Latino companies. Springfield Latino-owned firms also reported lower receipts, on average, than three of the five comparison cities (see Table 3).

Table 3

**Firms with Employees and Firm's Receipts, 2007**

	Employer firms (percent of total firms)		Firm's receipts (\$1,000/firm)	
	All firms classifiable*	Hispanic-owned	All firms classifiable*	Hispanic-owned
<b>Bridgeport</b>	19.1	10.1	344	160
<b>Hartford</b>	31.7	13.6	684	111
<b>New Haven</b>	22.1	8.4	364	170
<b>Providence</b>	22.3	4.5	406	28
<b>Springfield</b>	<b>27.3</b>	<b>12.1</b>	<b>491</b>	<b>72</b>
<b>Waterbury</b>	21.1	6.9	387	30
<b>Worcester</b>	25.7	10.2	503	43
<b>Massachusetts</b>	21.1	9.6	418	99
<b>United States</b>	19.8	11.0	382	121
<b>Average cities (excluding Springfield)</b>	<b>23.7</b>	<b>9.0</b>	<b>448</b>	<b>90</b>

\*All firms classifiable by gender, ethnicity, race, and veteran status (excludes publicly held firms).

Source: Survey of Business Owners (2007)

The number of Latino-owned firms in Springfield grew from 1997 to 2007 but at a much slower pace than Latino businesses in similar cities.<sup>28</sup> The results, however, are very different if one compares the growth from 1997 to 2002 with changes from 2002 to 2007 (see Figures 3 and 4). In the first five years, despite the considerable increase of the Latino population in Springfield, the number of Latino-owned firms declined slightly from 614 in 1997 to 591 in 2002 (see Table 5). Meanwhile, the number of Latino businesses went up 168 percent, on average, in the comparison cities. In contrast, from 2002 to 2007, the number of Latino firms in Springfield increased 44 percent, ten percentage points more than the increase in peer cities.

<sup>28</sup>The 2007 small business owners' data on other minority-owned-businesses was not available at the city level at the time this report was written. Data from 1997 and 2002 that shows the number of black-owned businesses showed even more pronounced declines than Latino firms in Springfield (see Appendix Table 3 for details). Conversely, the number of Asian-owned firms almost tripled in that period of time and their share in total firms increased from 1.6 percent to 4.2 percent. As of 2000, Asians represented only about 2 percent of the total Springfield population. Analyzing further what types of businesses were being created by Asians and what resources they were tapping can help identify positive opportunities for other minorities in Springfield.

Table 4

**Latino-owned Businesses in Springfield and Peer Cities, 1997, 2002, and 2007**

	Number of firms			Percent change
	1997	2002	2007	1997-2002
<b>Bridgeport</b>	662	993	1,242	88
<b>Hartford</b>	320	998	931	191
<b>New Haven</b>	153	593	643	320
<b>Providence</b>	731	2,022	2,999	310
<b>Springfield</b>	<b>614</b>	<b>591</b>	<b>852</b>	<b>39</b>
<b>Waterbury</b>	287	340	785	174
<b>Worcester</b>	226	820	761	237
<b>Massachusetts</b>	12,725	15,933	19,411	53
<b>United States</b>	1,199,896	1,573,464	2,260,250	88

Source: Survey of Business Owners (1997, 2002, 2007)

Figure 3

**Number of Latino-owned Firms**

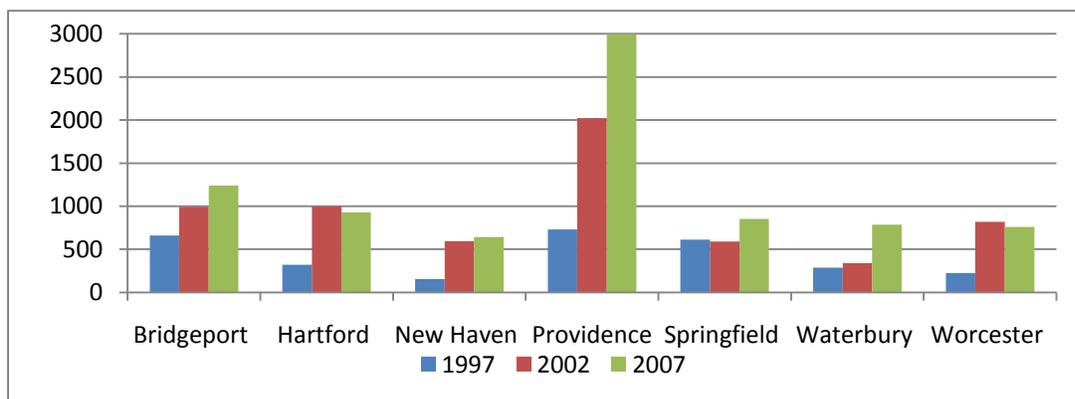
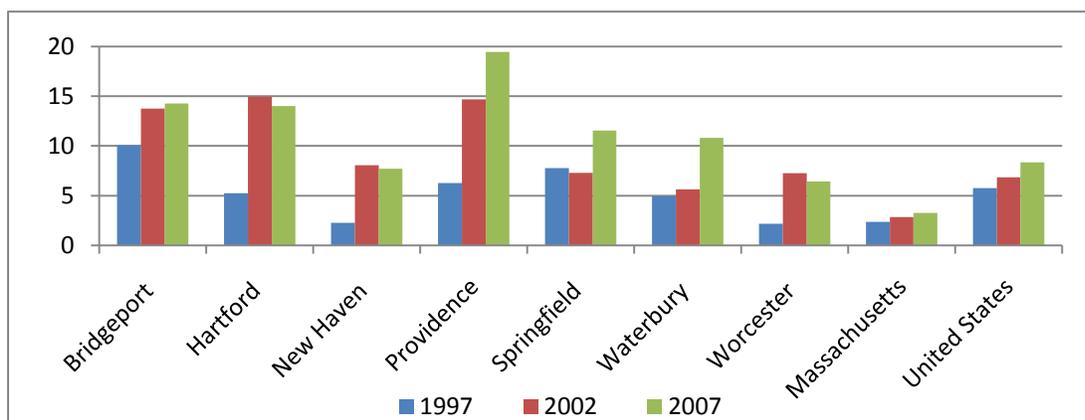


Figure 4

**Latino-owned Firms as a Percent of Total Firms**



The survey of business owners shows that Latino-owned firms in Springfield increased significantly from 2002 to 2007 and that, by some measures, they performed better than Latino businesses in other similar cities in 2007. Relative to the share of the Hispanic population, however, Latino companies in Springfield accounted for a lower percentage of the total number of firms than in comparable cities.

Self-employment rates across race and ethnicity groups in Springfield are similar to other comparable cities in New England, but they are lower than in Massachusetts and the United States as a whole. Latino self-employment in Springfield increased substantially from 2000 to 2006–08 as did the number of Latino-owned firms from 2002 to 2007. Although the number of Latino companies in Springfield increased at a much more rapid pace than in comparison cities in that period of time, the percent of Latino-owned firms compared with the share of the Latino population in Springfield was still slightly lower than that in the peer cities as of 2007.

In the following section we seek to have a better understanding of which industries have the largest concentrations of small businesses, how small businesses have fared over time, and what types of business are located in Springfield’s most impoverished areas. We analyze the types of small businesses that are located in Springfield, paying special attention to those located in the North End, Memorial Square, Metro Center, Six Corners, and South End neighborhoods. This information will help identify whether communities in poor neighborhoods are well served and if there are opportunities for new minority-owned small businesses.

### **Small Businesses Located In Springfield**

Using the ZIP code business patterns (ZBP) data we calculated the total number of establishments in Springfield by size of establishments. About two-thirds of all establishments located in the city have less than ten workers and 45 percent have one to four employees. Most employment, though, is concentrated in large establishments. Only 3 percent of employees working in Springfield, about 2,000 individuals,<sup>29</sup> work in micro-businesses, defined in this

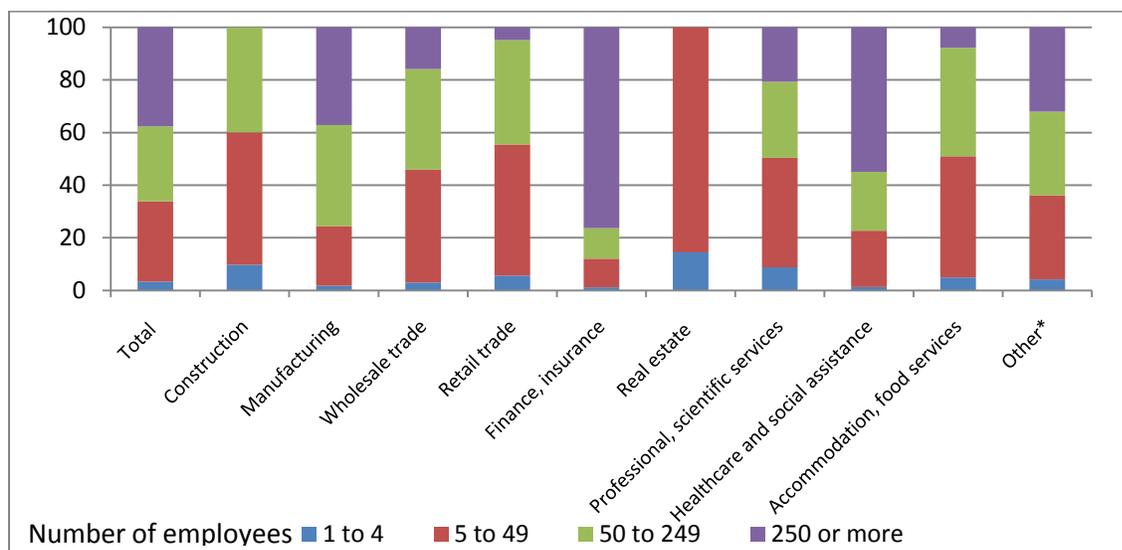
---

<sup>29</sup> We used 2006 estimates from Kodrzycki and Muñoz et al. (2009).

study as firms with one to four employees. The distribution of employment by size of establishment varies widely by industry. For instance, while only 1 percent of employment in the healthcare and manufacturing industries is offered by firms with less than five workers, 10 percent of jobs in the construction sector and 15 percent of employment in real estate activities are concentrated in establishments with one to four workers. In the retail trade sector,<sup>30</sup> 6 percent of jobs are generated by micro-businesses (see Figure 5).

Figure 5

**Employment in Establishments Located in Springfield as a Percent of Total Employment by Industry and Number of Employees, 2006**



\* Utilities; transportation; information; management; educational services; arts, entertainment, and recreation; administrative support and waste management; other services.

Source: ZIP code business patterns data (ZBP), 2006 and Kodrzycki and Muñoz et al. (2009) estimates

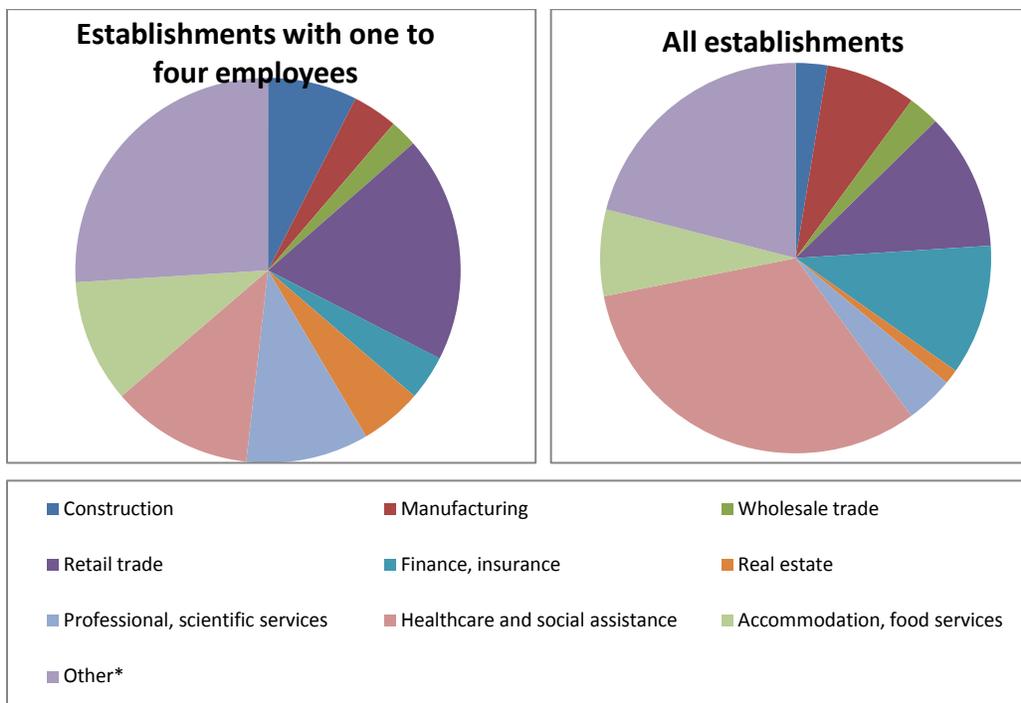
Likewise, the concentration of jobs by industry varies by establishment size. As expected, most jobs in small firms are in the retail sector. However, healthcare is such an important sector in Springfield that it also generates a significant number of jobs outside of large institutions. Of the employment generated by firms with less than five employees, 19 percent work in retail, 12

<sup>30</sup> This sector accounts for 11 percent of jobs located in the city.

percent in healthcare and social assistance,<sup>31</sup> 10 percent in accommodation and food services, and another 10 percent in professional and scientific and technical services (see Figure 6). Jobs generated by these small establishments require very different skills. For instance, the vast majority of micro-businesses in healthcare are doctors' offices employing mostly highly educated individuals while the retail sector comprises small convenience stores that might employ workers with low educational attainment.

Figure 6

**Percent of Employment in Establishments Located in Springfield, by Establishment Size**



\* Utilities; transportation; information; management; educational services; arts, entertainment, and recreation; administrative support and waste management; other services.

Source: ZIP code Business Patterns data (ZBP), 2006 and Kodrzycki and Muñoz et al. (2009) estimates

This section provided a snapshot of industry composition that helps us understand jobs structure in the city within each employment size category. We now take a look at historical

<sup>31</sup> A large majority of healthcare and social assistance establishments with fewer than five employees are doctors' offices.

data to analyze how small businesses have fared in the past ten years in Springfield, particularly in the most impoverished areas.

### Small Businesses Located in Impoverished Areas<sup>32</sup>

Small businesses play a central role in reinvigorating cities by providing goods and services to residents and visitors alike. An analysis of the number, variety, and growth of small businesses provides a picture of how vibrant a city is. In this section we take a closer look at small businesses located in some of Springfield's most impoverished areas that also are home to a large share of the Latino population and include the downtown neighborhoods.<sup>33</sup> In addition, data on the location of businesses helps identify areas that are underserved. For instance, as reported in the 2009 North End<sup>34</sup> strategic plan,<sup>35</sup> residents of the North End complain about the lack of grocery stores close to their neighborhood. In a focus group, residents mentioned that there are not large grocery stores within walking distance and that a full-service pharmacy and a hardware store would be helpful. In this section we try to identify whether this anecdotal evidence is backed by quantitative information, taking a closer look at businesses located in the most impoverished areas in Springfield.<sup>36</sup>

#### *Small Businesses Located in Metro Center, Six Corners, and South End (ZIP codes 01103 and 01105)*

Both the total number and the number of small establishments in Metro Center, Six Corners, and South End declined from 1998 to 2007. The total number of establishments decreased from 972 to 918 and the number of micro-businesses declined from 509 to 473 (see Figure 7). Most sectors experienced declines in the ten-year period analyzed.

---

<sup>32</sup> For details on the number of establishments by industry located in Springfield please see maps in Appendix 4.

<sup>33</sup> As of 2000, in the areas studied Latino residents represented a high share of total population: about 49 percent in ZIP codes 01103 + 01105 and 77 percent in ZIP code 01107.

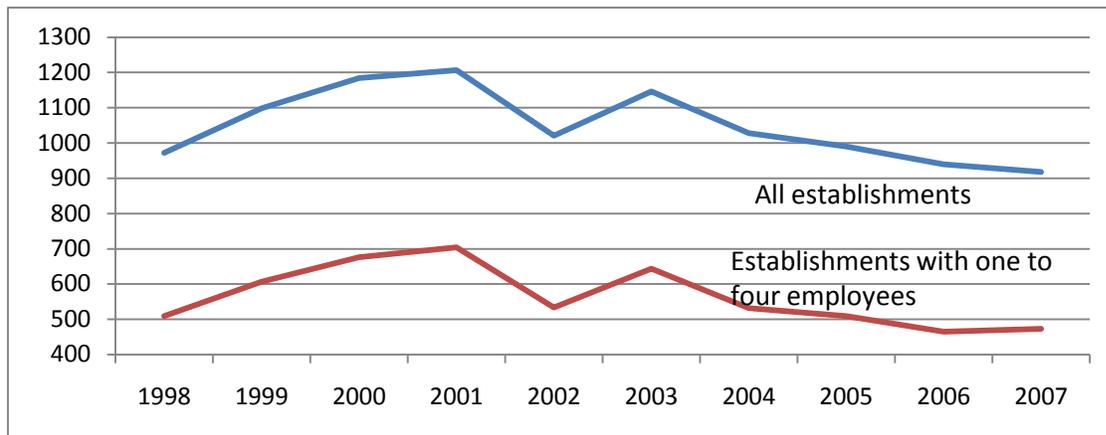
<sup>34</sup> The North End is comprised of the Brightwood and Memorial Square neighborhoods.

<sup>35</sup> 2009 North End Strategic Plan, August 13, 2009 (draft).

<sup>36</sup> We look at ZIP codes 01103, 01105, and 01107. The first two are the closest to match the Metro Center, Six Corners, and South End neighborhoods; the ZIP code 01107 includes the Brightwood and most parts of Memorial Square neighborhoods (also known as the North End). For more details on how closely these ZIP codes are to the actual neighborhood boundaries see Kodrzycki and Muñoz et al. (2009).

Figure 7

**Number of Establishments Located in ZIP codes 01103 and 01105**



Source: ZIP code Business Patterns data (ZBP), 1998–2006

Among the five largest industries, in terms of number of establishments, the only sector experiencing growth was professional, scientific, and technical services, although the change was very modest. In 2007, of the 250 establishments in that sector, three-quarters were offices of lawyers. That is explained in part by the location of the Springfield District Court in the Metro Center neighborhood. The number of retail trade establishments with fewer than five employees decreased almost every year from 1998 to 2005 and then stayed flat from 2005 to 2007 (see Figure 8).<sup>37</sup> The number of accommodation and food service establishments did not change since 1998.<sup>38</sup> Despite growth in the healthcare sector in the city, the total number of micro-businesses in the healthcare and social assistance sector, most of which are doctor’s offices, plummeted 40 percent.

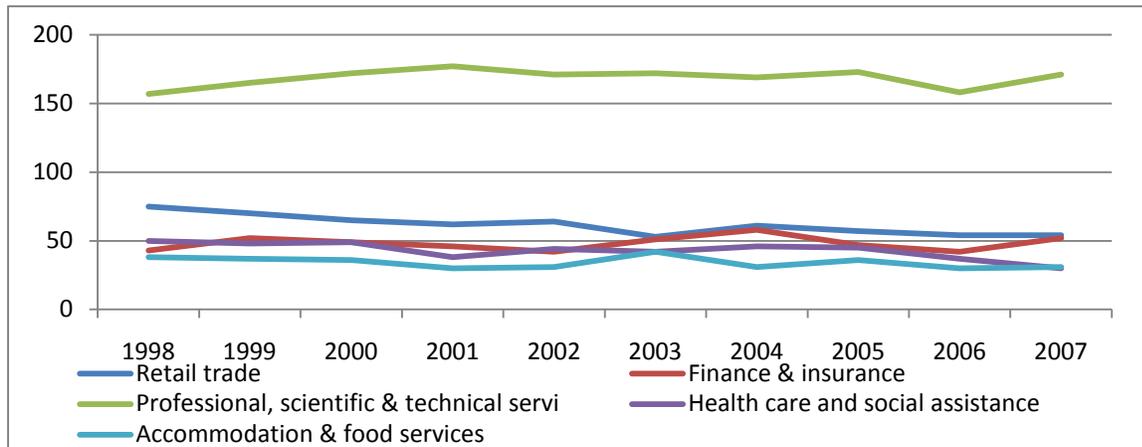
<sup>37</sup> Ten percent of all retail and 15 percent of micro retail establishments are beer and liquor stores. There are ten grocery and convenient stores in these neighborhoods, eight of which have one to four employees, as well as five car dealers and three pharmacies and drugstores.

<sup>38</sup> Forty-four restaurants, 19 with less than five employees, and 23 drinking places are located in ZIP codes 01103 and 01105.

The trends in the number of establishments in the retail and food services sector in ZIP codes 01103 and 01105 is of particular concern given that these areas include the city’s downtown. Several efforts have been undertaken to revitalize Springfield’s city center, including the creation of the business improvement district (BID) in 1998, the release of the Urban Land Institute report pointing out priorities to revitalize Springfield’s downtown, a major overhaul of the State Street corridor, and the creation of Develop Springfield’s Corridor Storefront Improvement Program.

Figure 8

**Number of Establishments with One to Four Employees Located in ZIP codes 01103 and 01105**



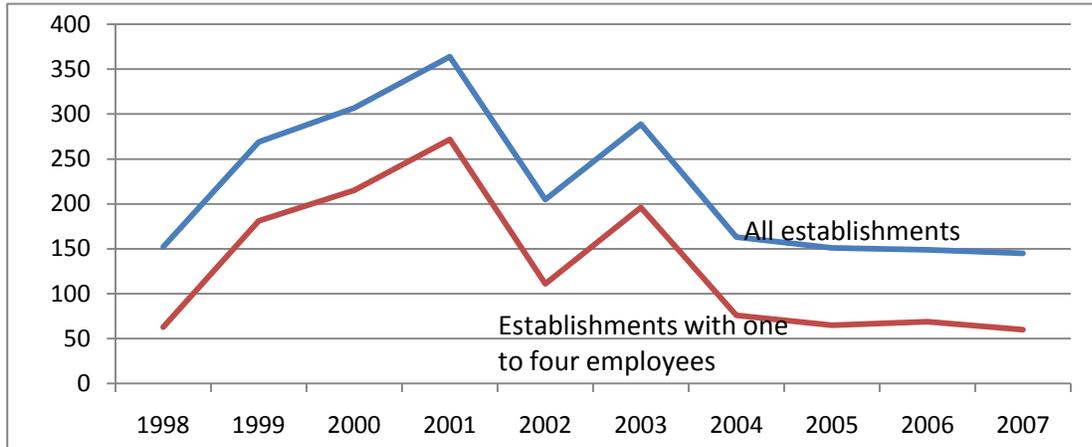
Source: ZIP code Business Patterns data (ZBP), 1998–2006

*Small Businesses Located in Brightwood and Memorial Square (ZIP code 01107)*

The number of total establishments located in ZIP code 01107 that comprise most parts of Brightwood and Memorial Square increased sharply from 1998 to 2001 but has languished since then (see Figure 9).

Figure 9

**Number of Establishments Located in ZIP Code 01107**



Source: ZIP code Business Patterns data (ZBP), 1998-2006

The industries with the highest number of establishments in ZIP code 01107 (retail trade, healthcare and social assistance, and accommodation and food services) have had about the same number of businesses since 1998. As expected, most firms in ZIP code 01107 are in the healthcare and social assistance industry such as Baystate Medical Center, the largest employer in Springfield, located in Memorial Square. However, despite the expansion of the hospital services, micro-firms in healthcare and social assistance declined significantly from 1998 to 2007.<sup>39</sup>

*Small Businesses Located in Springfield MSA*

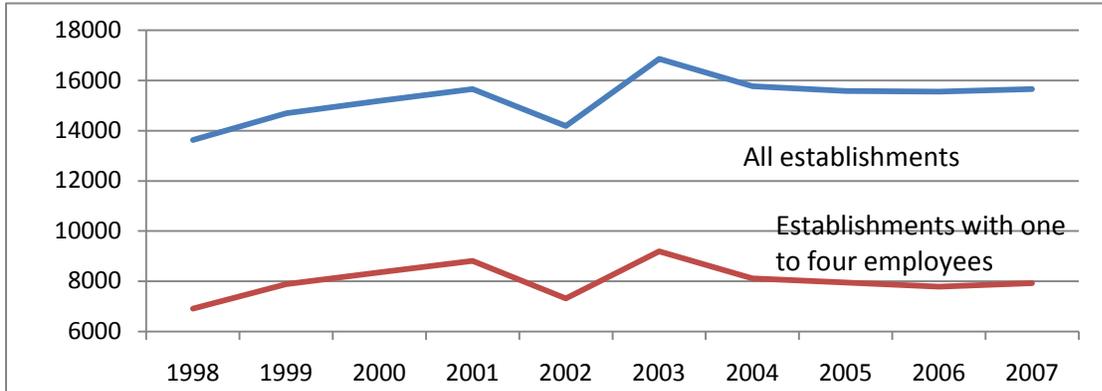
Trends seen in these neighborhoods are not the same as those experienced in the larger Springfield area. At the metropolitan statistical area (MSA) level, the number of total

<sup>39</sup> Retail and accommodation and food services had two additional establishments each in 2007 compared with 1998. Retail trade expanded from seven businesses in 1998 to 16 in 2007. It is interesting to note that in ZIP code 01107, there are three day-care centers, four automotive repair businesses all with one to four employees, eight restaurants (six with one to four employees), eight supermarkets and convenient stores (five with one to four employees), and one pharmacy/drugstore.

establishments and establishments with fewer than five employees increased 15 percent from 1998 to 2007 (see Figure 10). The growth was mainly driven by a sharp increase in construction and in professional services (see Figure 11).

Figure 10

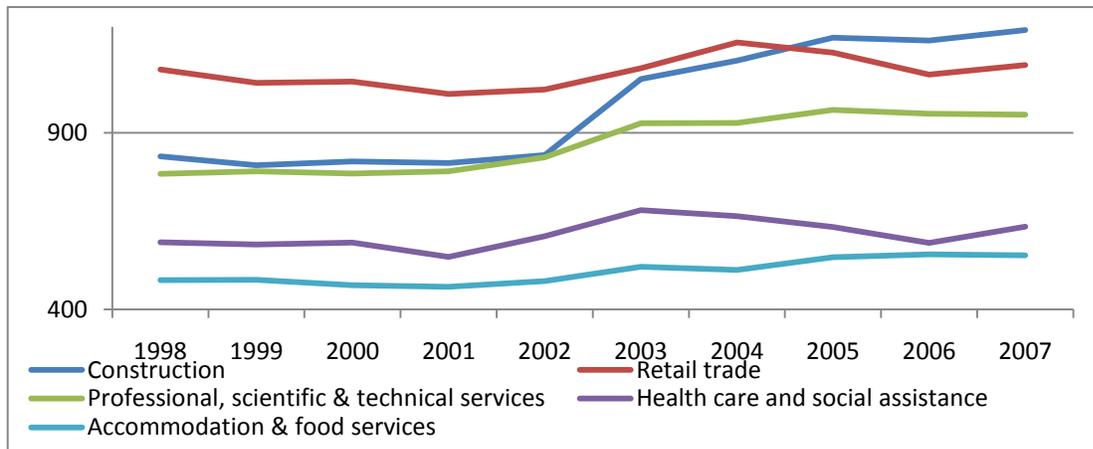
**Number of Establishments Located In Springfield MSA**



Source: County Business Patterns data (CBP), 1998–2006

Figure 11

**Number of Establishments with One to Four employees Located in Springfield MSA**



Source: County Business Patterns data (CBP), 1998–2006

The analysis of the number of establishments particularly in the retail and food services sectors sheds some light on how vibrant a community is. From 1998 to 2007, the number of establishments in these sectors and the overall number of establishments located in ZIP codes

01107, 01103, and 01105, which includes Springfield's downtown, declined slightly, implying that more needs to be done to support business start-ups and growth in these areas.

Research on the importance of small business in Springfield would not be complete without the entrepreneur's perspective. We interviewed Latino business owners about their motivations to be self-employed and the barriers they have faced in establishing and running their businesses. The following sections summarize some of the most important findings that stemmed from these interviews.

### **Characteristics of Latino-Owned Business: The Entrepreneurs' Perspective**

#### Entrepreneurs' perspective

We conducted interviews with Latino business owners during November and December 2010. The businesses were selected based on referrals by local leaders and business owners (snowball sampling) and by direct contact of the interviewer. The 30-minute interviews were conducted in Spanish (details of some of the questions covered in the interviews are in Appendix 5). The firms interviewed included small grocery stores or bodegas, clothing and music stores, beauty salons, restaurants, and money transfer services. Five establishments were located in the North End and one in each of the following neighborhoods: Sixteen Acres, Metro Center, Forest Park, East Springfield, and McKnight. Most Latino business owners were male Dominicans and Puerto Ricans. As expressed by interviewees, the large majority of Latino residents are Puerto Ricans, but there has been an increasing influx of Dominican entrepreneurs.

Latino entrepreneurs pointed out that the most important motivation to own a business is the desire to "be their own boss" and without a professional degree there are not jobs available that would provide them the same level of income and satisfaction as running their own businesses. Firms interviewed employed one to ten workers and most employed only family members. Business owners work on average 84 hours a week and have been in businesses from five to ten years, with the exception of three businesses that had recently opened. Several entrepreneurs interviewed acquired an existing business and continued using the supplier chain (most suppliers are in New York and Connecticut). In general, business

owners reported their relationship with landlords was very good, and they have not experienced or do not report problems with permitting or licensing with the city.<sup>40</sup>

None of the entrepreneurs contacted has received technical assistance<sup>41</sup> and all of them financed their businesses entirely with their own savings or family resources.<sup>42</sup> Over time, businesses appear to have expanded and added other services to the business lines. For instance, a variety store added a money transfer service to the business activities, the owner of a bodega also opened a fish market and a restaurant, and a beauty salon opened a barbershop. Nevertheless, despite their relative success, business owners asserted that they would not like their children to continue working in their firms. They would rather see them get a professional degree and be employed in well-paying jobs.

Several business owners were planning on expanding their activities in the future but have not done so because of declines in demand in the past two years. Another barrier impeding business growth is the lack of adequate space, particularly in the North End, that would provide more room, safety, and parking. Despite harsh economic conditions, business owners have been able to support their families and fund their children's education.

Interviewees reported a decline in crime activities in the past five years but would like to see further improvements in safety and cleanliness of their neighborhoods. Entrepreneurs agreed that there has been an increase in business activity in the past couple of years, most new businesses being bodegas and beauty salons. There is a sense that Latinos do not open businesses downtown because it is perceived as a "white area," rent is expensive, parking is not available, and there are not enough clients during evening hours.

Access to credit appears to be a major problem for start-up firms. Two of the owners interviewed looked for loans in several banks but were not approved. Entrepreneurs use their

---

<sup>40</sup> A restaurant owner did report that it was difficult to navigate the permitting process. Another interviewee pointed out that it is easy when you know where to go.

<sup>41</sup> One entrepreneur sought assistance with the business plan from the Small Business Development Center (SBDC) but did not agree with the recommendations offered. Two other business owners knew about the programs that the Springfield Technical Community College (STCC) offers but have not used them.

<sup>42</sup> In one case, the expansion of the firm was financed with credit cards and in another it was financed by a loan from the previous owner of the business.

own savings to open the business but are left with no resources to run the firm or to invest in marketing services. Most Latino businesses contacted do not belong to any business association, three were members of the Latino Chamber of Commerce, and one planned on joining it. Only two businesses were aware of the storefront renovation program available for Springfield businesses.

As business owners note, because of the lack of large grocery stores and pharmacies, small Latino bodegas are essential in providing access to food and other goods to residents in low-income areas. Moreover, Latino-owned businesses play an important role in providing additional services and support to Latino residents. Some owners pointed out that they provide help translating documents, filling out forms, contacting residents in need of social services, selling on credit, and even providing transportation in cases of emergency. As one bodega owner put it “el pan no se niega a nadie” (“bread cannot be denied to anybody”).

In sum, Latino business owners are dynamic and looking for opportunities to grow. They provide goods and services to underserved communities in addition to offering support to Latino residents. Owning a business provides a unique opportunity for Latinos moving to Springfield to be independent and support their families. In the long run, however, most of these entrepreneurs would like their children to engage in other type of activities that do not require such hard work and long hours (Latino business owners work more than ten hours a day) and that would open more opportunities for them. The economic downturn, lack of adequate space, and safety are some of the concerns of small business owners. In general, Latino entrepreneurs finance their start-ups with their own savings and they are not taking advantage of existing programs that support small firms.

### Support for small businesses

Efforts to provide access to credit or technical assistance to small business owners will require out-of-the-box programs in which entrepreneurs are actively contacted in their place of work, trust is gained by service providers, and the small business owners understand the advantages of the programs offered. The city also plays an important role in investing in safety, parking

spaces, and adequate commercial space for new and existing businesses. Most entrepreneurs do not belong to any trade or merchants association. Further collaboration among business owners would help transmit their needs to city officials and other organizations and better address the barriers they face. There is not a coordinated system to evaluate the types of businesses that are needed, generating an oversupply of some services. Latino entrepreneurs interviewed seemed to be more comfortable investing their own money rather than requesting a loan. Flexible credit products targeted to micro-entrepreneurs and managed by staff that understands the needs of the Latino community would be important to provide capital to business owners who are looking to expand or start up a business.

Currently, there are programs and organizations in Springfield that provide technical assistance and credit for small businesses, but they do not appear to be connected with the Latino community. Already existing resources could be leveraged to better target Latino-owned businesses. For example, the Develop Springfield's Corridor Storefront Improvement Program (CSIP)<sup>43</sup> provides grants of up to \$10,000 to fund the cost of eligible storefront improvements. Applicants must provide a 25 percent match to the grant funds. The program targets areas where a lot of Latino businesses are located and the information is available in Spanish. The city of Springfield also has two programs funded through Community Development Block Grants (CDBG). The Small Business Loan Program offers loans from \$1,000 to \$10,000 and the Neighborhood Storefront Improvement Program (NSIP) provides grants up to \$10,000. Nevertheless, Latino business owners have not been benefiting from the grants, in part because of the lack of resources to complete the matching funds required, lack of awareness, or the perception of a cumbersome application process. Similarly, the community development financial institution (CDFI) Western Massachusetts Enterprise Fund (WMEF)<sup>44</sup> has been offering loans to small businesses in western Massachusetts since 1989. However, none of the business

---

<sup>43</sup> Develop Springfield was formed in 2008 as a nonprofit, 501(c)(3) corporation to advance development and redevelopment projects, to stimulate and support economic growth, and to expedite the revitalization process within the city of Springfield. The organization has a 13-member board of directors, including representatives from the city, state, and local business community. Details available at [http://www.developspringfield.com/about\\_us.html](http://www.developspringfield.com/about_us.html).

<sup>44</sup> WMEF offers microenterprise loans for up to \$ 35,000 and term loans ranging from \$500 to \$250,000. More information available at <http://www.wmef.org/>.

owners interviewed has sought loans from the WMEF. Springfield also offers a Small Business Development Center (SBDC) and a Score program providing technical assistance and business advisory services. Finally, organizations like the Latino Chamber of Commerce should play an essential role in connecting Latino businesses with available programs and resources.

Furthermore, fostering partnerships between local entities and strong micro-finance organizations could provide additional resources for entrepreneurs. For instance, Accion USA, a leader in micro-finance in the United States, has a centralized strategy managing its operations from Boston. Accion reaches out to borrowers elsewhere by partnering with local organizations and offering an online tool to apply for loans. Although this approach might work for some entrepreneurs, small business owners in the areas we focused on are not likely to use that tool. Rather, a direct contact with a borrower coupled with additional services provided locally would be more effective. Direct contact could be achieved with the collaboration of local banks, educational institutions, or community-based organizations.

## **Recommendations**

Supporting the creation of Latino-owned businesses provides opportunities for the Latino population to participate fully in the redevelopment initiatives Springfield is undertaking. Any policy targeted to support minority businesses should recognize the particular needs of the community and of the entrepreneurs. As Robles and Cordero-Guzmán (2007) acknowledge, different strategies are needed for different types of entrepreneurs: those experienced corporate business owners and the less-educated Latino micro-entrepreneurs. For the first group, policies should recognize the financial capital start-up and expansion needs, whereas for the second group public policy should focus on connecting entrepreneurs with community-based organizations offering basic financial resource and entrepreneurial support services. Likewise, the needs of small businesses are different from those of micro-businesses or informal businesses.

Reducing self-employment gaps goes beyond direct support to entrepreneurs. Fairlie and Robb (2008) suggest that wealth inequality should be also be addressed through expanding

asset-building programs such as financial education, individual development accounts (IDAs), and first-time homeownership programs. Fairlie and Robb also conclude that policy should focus on providing opportunities for relevant work experience for would-be entrepreneurs. They underscore that there should be a “shift in emphasis of entrepreneurial training programs away from writing business plans and finding capital and toward gaining related work experience would be a step in the right direction.”

There is an urgent need, and an opportunity, to better connect Latino entrepreneurs to existing resources in and around Springfield. As Delgado (1997) points out, “Latino small businesses can be organized into coalitions to increase their visibility, advocacy and purchase of supplies.” As part of a unified collaborative, minority business owners can learn from one another and advocate for their needs. Pooling resources may facilitate access to larger business opportunities. For instance, one of Baystate Medical Center’s chief diversity officer’s<sup>45</sup> priorities is hiring a minority business to serve the wide range of services that Baystate demands.<sup>46</sup> This represents a unique opportunity for Latino business owners, particularly for those in the North End where Baystate is located.

Better coordination between minority business owners and support from the city may allow them to be part of the revitalization plans. A report by the Urban Land Institute (2006) asserts that “specialty retail and restaurants, with an emphasis on locally owned businesses” should be part of the city’s short-term revitalization strategy. According to the report, “Springfield’s downtown holds many opportunities for its renewal and redevelopment. They include maximizing the effect of the many local colleges and high-profile major employers, attracting new markets to downtown and comprehensively showing off the city’s cultural assets, and cultivating new residential and retail development downtown.” Minority-owned businesses should be part of this strategy.

A myriad of services exist in the city but they are not necessarily targeted to minorities. Springfield’s SBDC provides technical assistance, but only a few Latino entrepreneurs use its

---

<sup>45</sup> As reported by *BusinessWest* magazine, Baystate “is the first health system in Massachusetts to have a full-time diversity officer and full-fledged diversity initiative.”

<sup>46</sup> Interview with Bobby Rodriguez, chief diversity officer, Baystate Medical Center, June 2010.

services. Given the time and transportation constraints and the lack of trust and knowledge about resources, training services will better serve the community if they are located close to underserved areas and partnered with strong organizations that serve the Latino population.

An Aspen Institute study on Latino informal businesses (Edgecomb and Armington 2003) found that skilled tradesmen and the caterers interviewed in the study looked for ways to collaborate and pool resources with one another. Initiatives promoting “trades-based networking opportunities can help entrepreneurs gain skills and build their own alliances.” The report suggests providing assistance through church and community-based organizations. The FIELD work<sup>47</sup> on marketing strategies for microenterprises found that effective outreach involves working with individuals who are close to the community. Organizations providing services to Latino business owners might need to do “outreach on the retail level” going door to door or store to store. The report explains that Accion New York found that “its lending volume increased dramatically when it relocated loan officers to local communities within the city and had them work out of well-regarded community organizations.”

Finally, although African American business owners were not the focus of this study, they certainly face many of the same challenges of Latino entrepreneurs. An overall strategy of the city, the private sector, and the nonprofit sector to foster small businesses should encompass all minority groups, paying special attention to their particular needs.

---

<sup>47</sup> FIELD is a project of the Economic Opportunities Program (EOP), which is a policy program housed at the Aspen Institute in Washington, D.C. EOP focuses on advancing strategies that connect the poor and underemployed to the mainstream economy.

## References

Acs, Zoltan, and Kadri Kallas. 2008. "State of Literature on Small-to Medium Sized Enterprises and Entrepreneurship in Low-Income Communities." In *Entrepreneurship in Emerging Domestic Markets*, Milken Institute.

Banerji, Shibben, Anna Bentley, Amy Deora, Jonathan Leit, Hania Maraqa, Bill Massaquoi, Seth Pipkin, Alice Savage, and May Tscubouchi. 2005. "Building in the Present, Growing towards the Future: A Plan for Economic Development in the North End." MIT Department of Urban Studies and Planning.

Barth, James R., Glenn Yago, and Betsy Zeidman. 2005. "Stumbling Blocks to Entrepreneurship in Low- and Moderate-Income Communities." <http://ssrn.com/abstract=1260449>.

Bates, Timothy. 1999. "Race Self-employment & Upward Mobility: An Elusive American Dream." Washington, D.C.: The Woodrow Wilson Center Press; Baltimore and London: The Johns Hopkins University Press.

Blanchflower, David G., and Andrew J. Oswald. 1998. "What Makes an Entrepreneur?" *Journal of Labor Economics* 16 (1): 26–60.

Blanchflower, David G. 2004. "Self-employment: More May not Be Better." *Swedish Economic Policy Review* 11 (2): 15–74.

Boden, Richard J. Jr. 1999. "Flexible Working Hours, Family Responsibilities, and Female Self-Employment: Gender Differences in Self-Employment Selection." *American Journal of Economics and Sociology* 58 (1): 71–83.

Delgado, Melvin. 1997. "Role of Latina-owned Beauty Parlors in a Latino Community." *Social Work* 42: 445–453.

Delgado, Melvin. Forthcoming 2011. *Latino Small Businesses and the American Dream: Community Social Work Practice and Community Economic and Social Development*. New York: Columbia University Press.

Dunn, Thomas, and Douglas Holtz-Eakin. 2000. "Financial Capital, Human Capital, and the Transition to Self-Employment: Evidence from Intergenerational Links." *Journal of Labor Economics* 18( 2): 287–305.

Edgecomb, Elaine L., and Maria Medrono Armington. 2003. *The Informal Economy: Latino Enterprises at the Margins*. Washington, D.C.: Aspen Institute.

Fairlie, Robert W. 2004. "Does Business Ownership Provide a Source of Upward Mobility for Blacks and Latinos?" In Douglas Holtz-Eakin and Harvey S. Rosen (eds.), *Public Policy and the Economics of Entrepreneurship*. Cambridge: MIT Press, pp. 153–179.

Fairlie, Robert W. 2005. "Entrepreneurship among Disadvantaged Groups: An Analysis of the Dynamics of Self-Employment by Gender, Race, and Education." Simon C. Parker, Zoltan J. Acs, and David R. Audretsch (eds.), *Handbook of Entrepreneurship* Vol. 2. Kluwer Academic Publishers.

Fairlie, Robert, and Alicia Robb. 2008. *Race and Entrepreneurial Success, Black-, Asian-, and White-Owned Businesses in the United States*. Cambridge: The MIT Press.

Fairlie, Robert W. and Christopher M. Woodruff. 2007. "Mexican Entrepreneurship: A Comparison of Self-Employment in Mexico and the United States." IZA discussion paper no. 2039. <http://ssrn.com/abstract=892841>.

Fischer, Mary J., and Douglas S. Massey. 2000. "Residential Segregation and Ethnic Enterprise in U.S. Metropolitan Areas." *Social Problems* 47 (3): 408–424.

Friedman, Robert E. 1986. "Entrepreneurial Renewal in the Industrial City." *Annals of the American Academy of Political and Social Science* 488, Revitalizing the Industrial City: 35–46.

Glaeser, Edward L. 2007. "Entrepreneurship and the City." Working paper 13551, National Bureau of Economic Research.

Hamilton, Barton H. 2000. "Does Entrepreneurship Pay? An Empirical Analysis of the Returns to Self-Employment." *Journal of Political Economy* 108 (3): 604–631.

Holtz-Eakin, Douglas, Harvey S. Rosen, and Robert Weathers. 2000. "Horatio Alger Meets the Mobility Tables." *Small Business Economics* 14 (4): 243–274.

Hout, Michael, and Harvey Rosen. 2000. "Self-Employment, Family Background, and Race." *Journal of Human Resources* 35(4): 670–692.

Kumar, Tara. 2004. "Informal Microenterprise in the North End Community: Springfield, MA." (Master's thesis, Massachusetts Institute of Technology, Dept. of Urban Studies and Planning).

Lofstrom, Magnus, and Timothy Bates. 2009. "Latina Entrepreneurship." IZA discussion paper no. 3997. <http://ssrn.com/abstract=1351161>.

Mitchell, Kathleen. 2010. "Defining Diversity." *BusinessWest*. <http://businesswest.com/details.asp?id=2483>.

Olson, Patricia D., Virginia S. Zuiker, and Catherine Phillips Montalto. 2000. "Self-employed Latinos and Latino Wage Earners: Differences in Earnings." *Latino Journal of Behavioral Sciences* 22, (1): 114–130. <http://ssrn.com/abstract=1513134>.

Robles, Bárbara J., and Héctor Cordero-Guzmán. 2007. "Latino Self-Employment and Entrepreneurship in the United States: An Overview of the Literature and Data Sources." *The ANNALS of the American Academy of Political and Social Science* 613 (1): 18–31.

Shinnar, Rachel S., and Cheri A. Young. 2008. "Hispanic Immigrant Entrepreneurs in the Las Vegas Metropolitan Area: Motivations for Entry into and Outcomes of Self-Employment." *Journal of Small Business Management* 46 (2): 242–262.

The Springfield Institute. 2009. "2009 North End Strategic Plan (draft)."

Urban Land Institute. 2006. *Springfield Massachusetts, Strategies for a Sustainable City*. Advisory services panel report.

Yago, Glenn, James R. Barth, and Betsy Zeidman, eds. 2007. *Entrepreneurship in Emerging Domestic Markets: Barriers & Innovation*. The Milken Institute Series on Financial Innovation and Economic Growth.

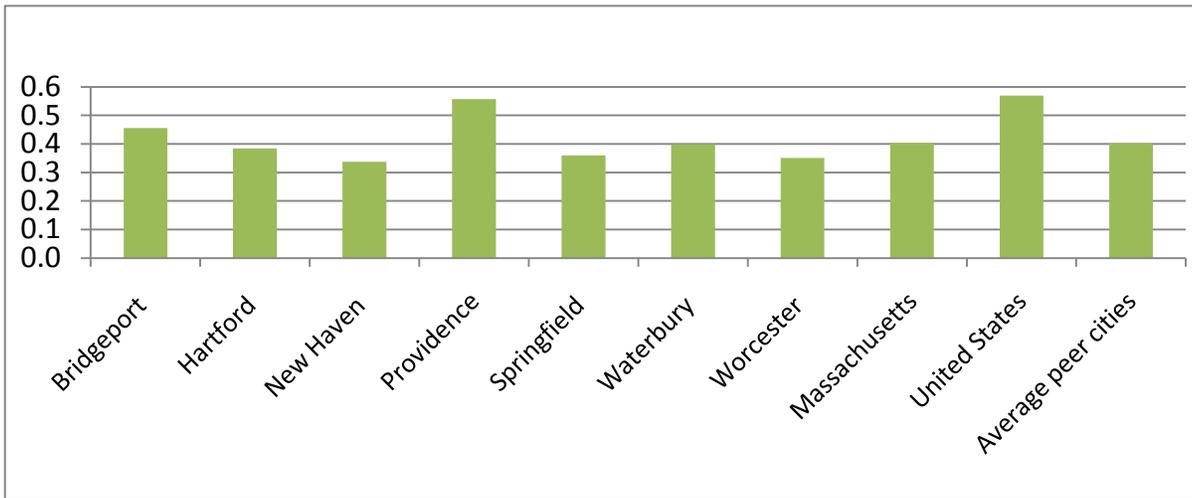
**Appendix Table 1: Change in self-employed and wage/salary workers in Springfield and peer cites, 2000 to 2006–08**

Percent change in the number of employed population

	self-employed				Wage/salary workers			
	Non-Latino white	Non-Latino black	Latino	Total	Non-Latino white	Non-Latino black	Latino	Total
United States	8.3	30.8	80.3	15.6	2.6	16.6	45.6	9.7
Massachusetts	6.3	69.1	76.6	10.5	-0.6	28.5	47.9	4.2
Bridgeport	29.8	-19.0	87.7	33.9	-15.2	22.5	3.2	2.1
Hartford	-3.3	39.6	39.9	15.9	8.4	7.4	23.3	12.0
New Haven	-21.8	6.8	67.4	-15.6	2.2	13.3	72.6	18.2
Providence	3.3	102.4	237.3	35.4	-12.6	23.8	47.3	5.9
Waterbury	-6.9	2.7	298.5	17.5	-11.6	39.3	53.6	6.9
Worcester	7.6	99.1	-59.2	6.1	-4.7	27.5	44.2	4.0
Springfield	-15.7	93.6	155.5	14.4	-21.8	6.4	52.7	-3.6

Source: U.S. Census Bureau (2000), Integrated Public Use Microdata Series (IPUMS) Minneapolis, University of Minnesota, American Community Survey (2006–2008)

**Appendix 2: Latino population as a percent of total population/Latino-owned businesses as a percent of total businesses**



Source: Survey of Business Owners, 2007, American Community Survey (2005–2008)

**Appendix Table 3: Minority-owned businesses in Springfield, 1997–2002**

	Number of firms			Percent of all firms		
	1997	2002	Change (percent)	1997	2002	Change (percentage points)
All firms	7,914	8,091	2.2	100	100	
Latino	614	591	-3.7	7.8	7.3	-0.5
Black	832	691	-16.9	10.5	8.5	-2.0
Asian	124	338	172.6	1.6	4.2	2.6

Source: Survey of Business Owners (1997, 2002)

## **Appendix 4: Maps of Establishments Located in Springfield, Massachusetts**

Retail Establishments Located in Springfield, MA by Number of Employees

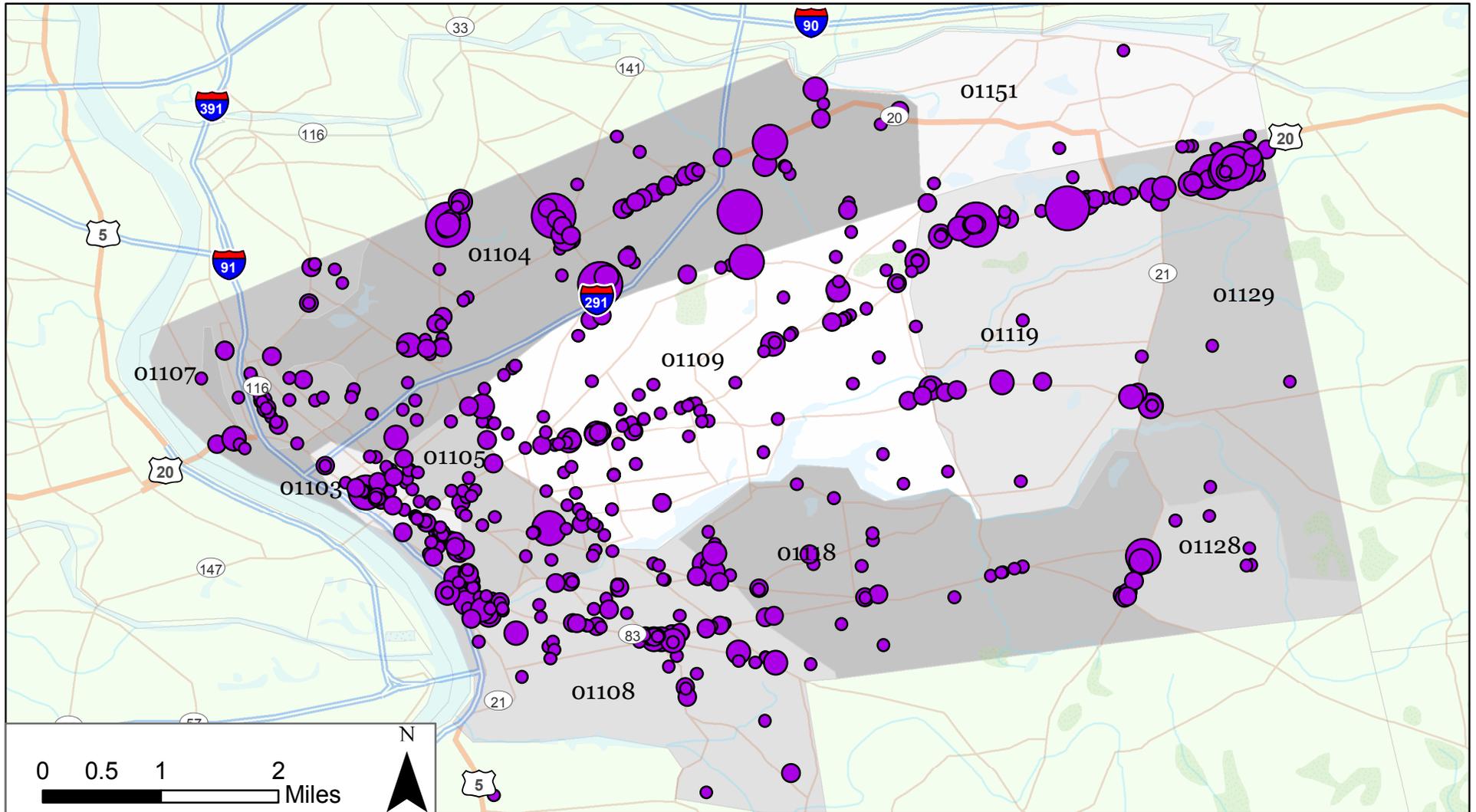
Grocery/Variety Stores Located in Springfield, MA by Number of Employees

Pharmacies and Health Suppliers Located in Springfield, MA by Number of Employees

Restaurants and Bakeries Located in Springfield, MA by Number of Employees

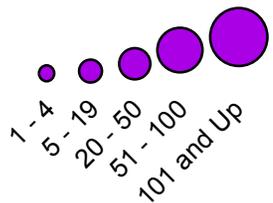
Micro Businesses (One to Four Employees) Located in Selected ZIP Codes

# Retail Establishments Located in Springfield, MA by Number of Employees

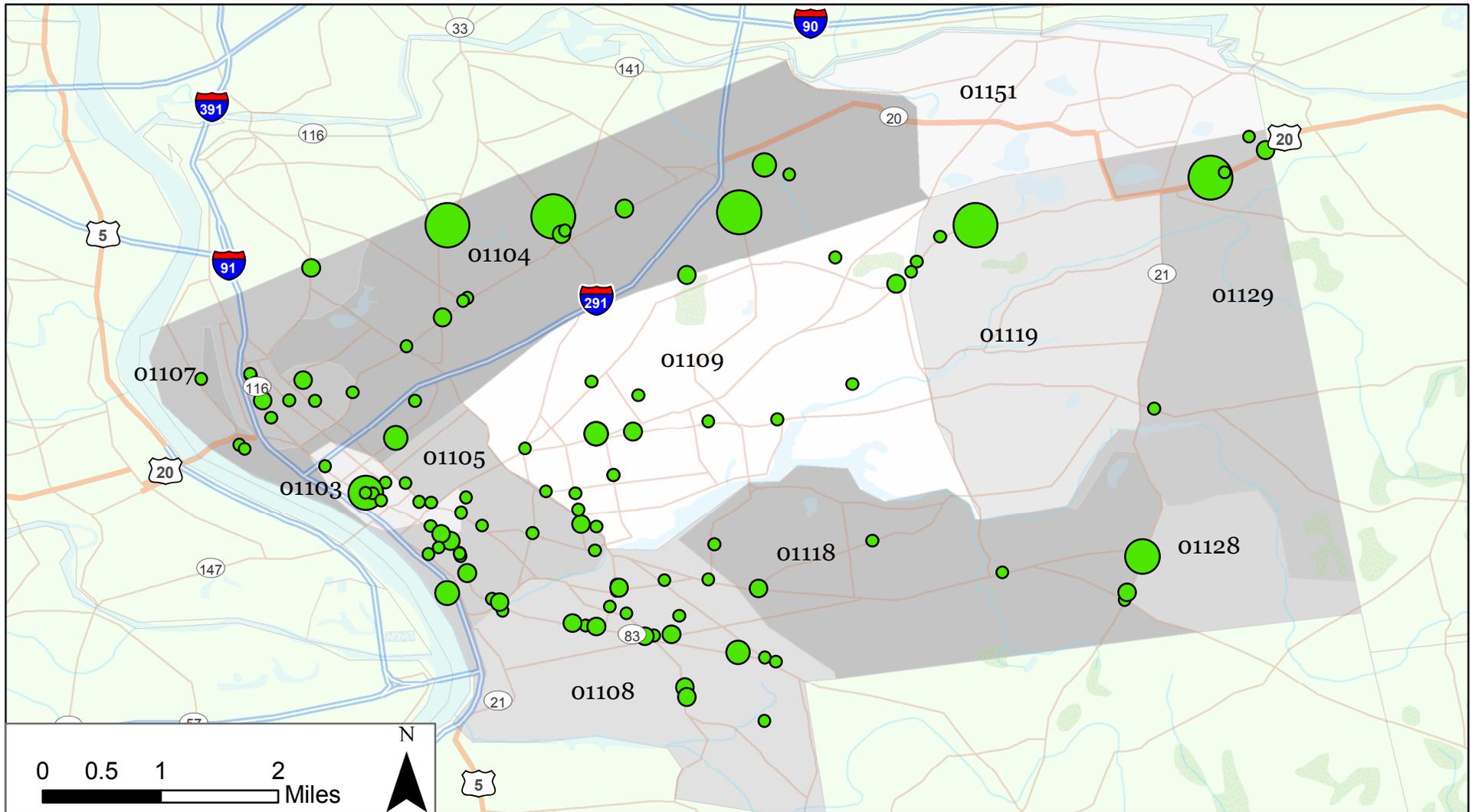


Source: Dun & Bradstreet Corporation, 2010

## Number of Employees

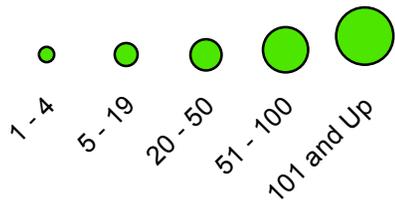


# Grocery/Variety Stores Located in Springfield, MA by Number of Employees

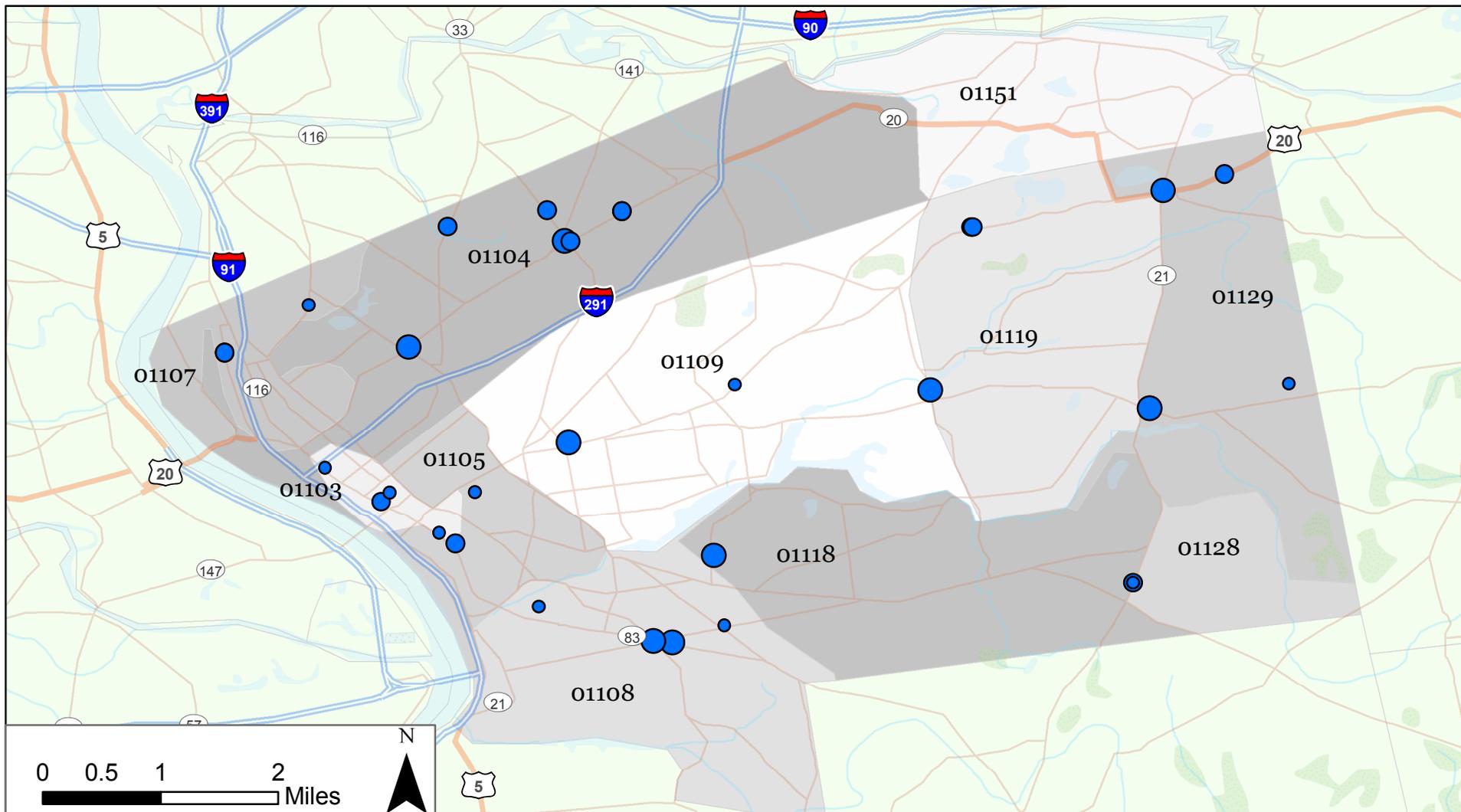


Source: Dun & Bradstreet Corporation, 2010

## Number of Employees

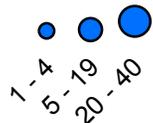


# Pharmacies and Health Suppliers Located in Springfield, MA by Number of Employees

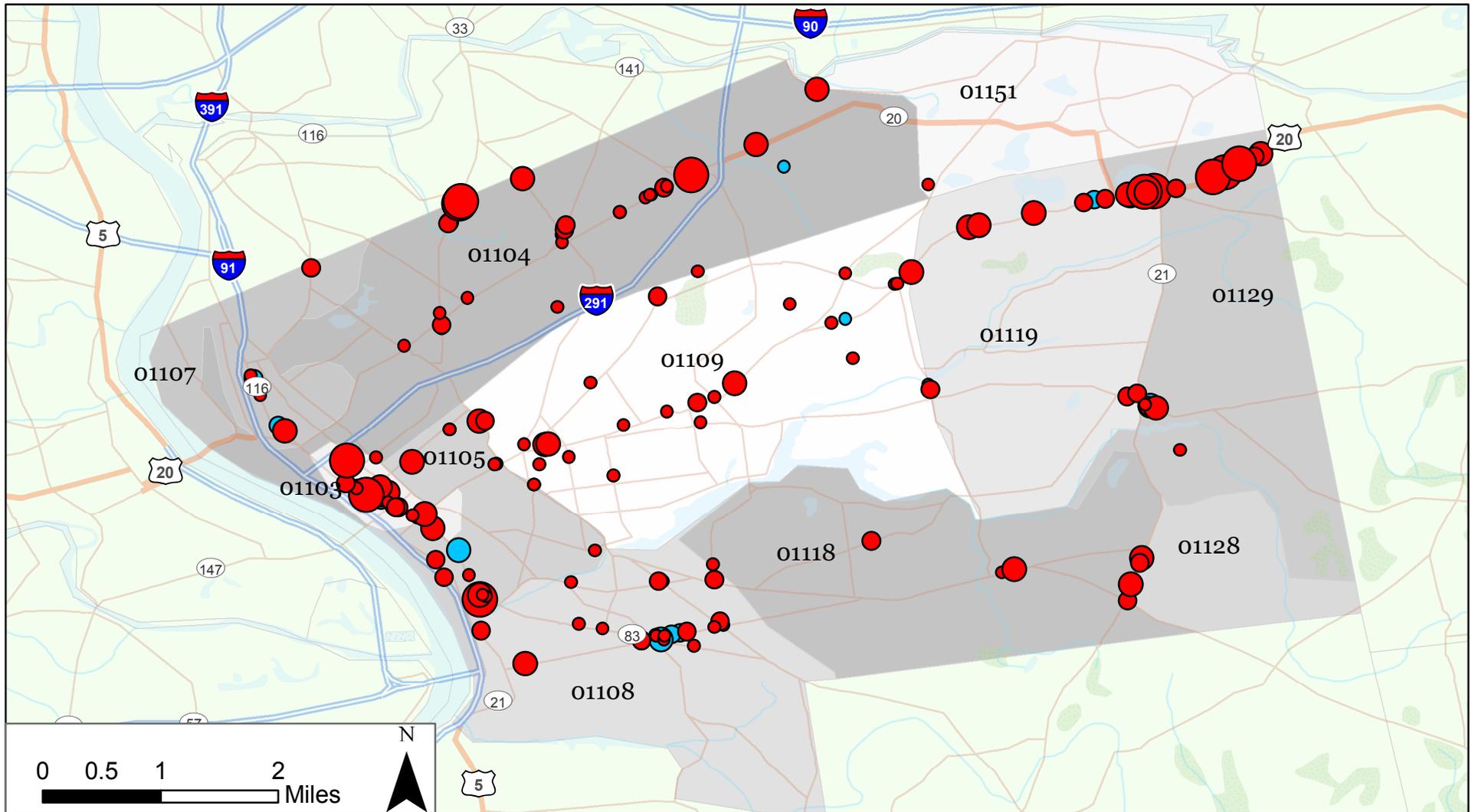


Source: Dun & Bradstreet Corporation, 2010

## Number of Employees



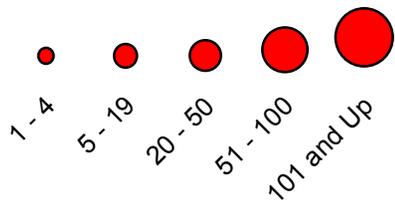
# Restaurants and Bakeries Located in Springfield, MA by Number of Employees



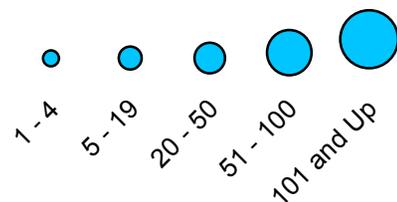
Source: Dun & Bradstreet Corporation, 2010

## Business Type and Number of Employees

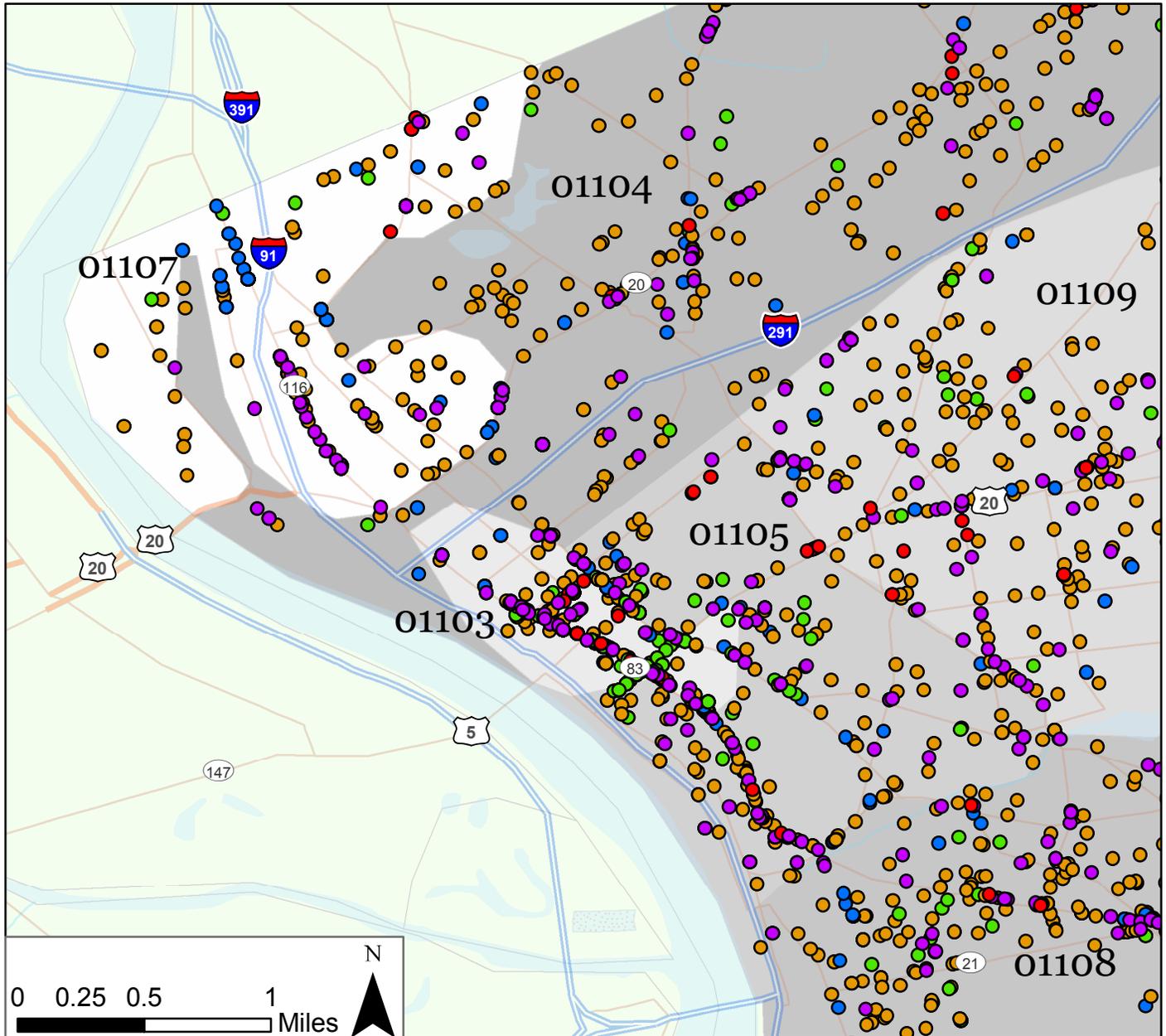
Restaurants



Bakeries



# Micro Businesses (One to Four Employees) Located in Selected ZIP Codes



Source: Dun & Bradstreet Corporation, 2010

## Industry

- Accommodation and Food Services
- Health Care and Social Assistance
- Professional, Scientific and Technical Services
- Retail Trade
- Other\*

\* Administrative Support/Waste Management/Remediation Services; Agriculture, Forestry, Fishing & Hunting; Arts, Entertainment & Recreation; Construction; Educational Services; Finance & Insurance; Information; Management of Companies and Enterprises; Manufacturing; Mining; Other Services (Except Public Administration); Public Administration; Real Estate & Rental & Leasing; Transportation & Warehousing; Utilities; Wholesale Trade

## Appendix 5: Interview guide in English and Spanish

- Why did you decide to open your own business? ¿Por qué decidió trabajar en un negocio propio?
- What type of work did you do before opening this business? ¿Qué tipo de trabajo tenía antes de abrir su negocio?
- When did you start your business? How long after coming to Springfield did you start your business? ¿Cuándo empezó su negocio? ¿Cuánto tiempo después de mudarse a Springfield abrió su negocio?
- Why did you choose this location? Do you live in this area? Do you own this location? ¿Por qué decidió abrir su negocio en este lugar? ¿Vive usted cerca de aquí? ¿Es usted dueño de este local?
- How many employees do you have? How many of your family members work with you? ¿Cuántos empleados tiene? ¿Cuántos empleados son familiares suyos?
- How many hours a week do you work in your business? ¿Cuántas horas a la semana trabaja en su negocio?
- Where do you get your supplies? ¿Dónde están sus proveedores?
- What are the major barriers to create and run your business (access to capital, training, demand, infrastructure, safety, lighting, zoning/regulations/permitting, language barriers, previous experience in running a business, time needed to take care of household, equipment material) ¿Cuáles son los obstáculos más grandes que ha enfrentado usted al abrir y manejar su negocio?
- Have you used any of the technical assistant resources available in Springfield? ¿Ha recibido usted algún tipo de ayuda técnica?
- Have you applied/got a loan to open or run your business? How do you finance your business? ¿Recibió usted algún tipo de crédito para abrir su negocio? ¿Cómo financió su negocio?
- Has the number of small businesses increased/decreased in this neighborhood over the past five years? What types of businesses have been opened? ¿Cree usted que el número de negocios en este barrio ha incrementado o disminuido? ¿Qué tipo de negocios han sido abiertos?
- What do you think about crime trends in the past five years? ¿Qué tan seguro es este barrio? ¿Cree usted que ha incrementado o disminuido el crimen y la violencia en este barrio en los últimos 5 años?

- Do you provide other social services/advice to your customers? ¿Presta usted servicios/ayuda adicionales a sus clientes?
- Where do your customers come from? ¿De dónde vienen sus clientes?
- Do you belong to any business group? Local business association? Are you affiliated to a chamber of commerce? ¿Pertenece usted a alguna asociación de negocio cámara de comercio?
- How is your relationship with the city (in terms of permitting/licensing)? ¿Qué tan buena es su relación con el municipio?
- How is your relationship with your landlord? ¿Qué tan buena es su relación con el dueño del local?
- Do you collaborate with community business owners? ¿Colabora usted con dueños de otros negocios?
- What are your plans for the next five to ten years? Do you plan to grow your business? ¿Cuáles son sus planes en los próximos cinco a diez años ? ¿Planea usted agrandar su negocio?
- Would you like your children to continue working on your business? ¿Quisiera usted que sus hijos sigan trabajando en su negocio?
- What are the three most important things that could help your business? ¿Cuáles son las tres cosas más importantes que podrían ayudar a su negocio?
- How big do you think is the informal business sector? ¿Cuán grande cree usted que es el sector informal?
- What types of businesses are needed in the neighborhood? ¿Qué tipos de negocios se necesitan en el barrio?