INTRODUCTION

Research on Latino-owned businesses (LOBs) in the United States consistently identifies two major trends. First, the number of LOBs is rapidly increasing. The Stanford Latino Entrepreneurship Initiative (SLEI) 2015 research report found that the number of LOBs increased from 1.2 million in 1997 to 3.3 million in 2012. Second, the same report found that LOBs are much smaller than firms owned by non-Latino whites. Only 1.9 percent of LOBs but 4.9 percent of non-LOBs (NLOBs) exceed 1 million in annual revenue. In 2012 the average LOB generated $155,806 in sales versus $573,806 for NLOBs. From 1997 to 2012 LOB sales per firm increased by $564 versus $146,727 for NLOBs. A major focus of the SLEI 2015 and 2016 reports as well as much of the research in the field of minority entrepreneurship explores the dynamics limiting the growth of firms owned by Latino, African American, and other minority entrepreneurs (Butler, Morales, and Torres 2009; Dávila and Mora 2013; Fairlie and Robb 2008; Valdez 2011).

In this study we address the challenges of LOBs and growth. We believe that our contribution falls into three main areas. First, we conducted semistructured interviews with 14 Latino entrepreneurs leading companies that are currently experiencing rapid growth and/or have experienced rapid growth in the past (we use the terms “Latino” and “Hispanic” interchangeably throughout this chapter). We believe that the systematic exploration of how these entrepreneurs have been able to create rapidly
growing companies provides important insight for scholars, practitioners, and public policy makers interested in closing the performance gap. Second, we incorporate research from the management and economics literature on high-growth firms (HGFs) as the theoretical framework for this study. We believe that this lens provides value in that it facilitates comparisons between LOBs and the mainstream literature. Finally, this study is set in a unique region of the United States. Located in deep South Texas on the U.S.-Mexican border, the McAllen-Edinburg-Mission (MEM) metropolitan statistical area (MSA) has a number of distinguishing characteristics (Richardson and Pisani 2017). A key finding from our study is that many of our sample entrepreneurs are successful due to their ability to combine “generic” entrepreneurial skills with their in-depth knowledge of the bilingual, bicultural nature of the borderlands.

This chapter continues as follows. In the second section we provide a brief review of the HGF and Latino entrepreneurship literature. In the third section we provide a description of the history and demographics of the MEM MSA. In the fourth section we describe our research methodology and in the fifth section our results. The concluding section provides a discussion of our findings, theoretical implications, and suggestions for further research.

HIGH-GROWTH FIRMS, LOCATION, AND LATINO ENTREPRENEURS

The systematic study of small and midsize HGFs began in 1979 with the publication of *The Job Generation Process* by David Birch. This study utilized a national database to track the birth, growth, contraction, and death of U.S. companies. Birch (1979) concluded that firms with fewer than 100 employees were responsible for 82 percent of all net new jobs created in the United States from 1969 to 1976. The small firm job creation hypothesis was controversial, and a number of authors challenged Birch’s methodology and findings (Kirchhoff and Phillips 1998; Brown, Hamilton, and Medoff 1990; Davis, Haltiwanger, and Schuh 1996). In 1994 Birch joined with one of his main critics to address a subset of these controversies. Birch and Medoff (1994) found that firms starting with at least $100,000 in sales that experienced average yearly sales growth of at least 20 percent over a four-year period were responsible for 70 percent of all job creation over the 1988–1992 period. Only 4 percent of firms
in their data set fit this high-growth “gazelle” category. The finding that a limited number of small, medium, and large HGFs rather than simply small firms were responsible for a large percentage of job creation has been largely supported by subsequent research. Acs and Tracy (2008) found that HGFs with fewer than 20 employees represented 93.8 percent of all HGFs and accounted for 33.5 percent of all HGF job creation, HGFs with 20 to 499 employees represented 5.9 percent of firms and 24.1 percent of HGF job growth, and HGFs with 500 or more employees represented only .3 percent of HGFs but 42.4 percent of net new HGF job creation.

The last three-plus decades of research has resulted in a generally accepted set of stylized facts that are often used to describe the HGF phenomena (Coad et al. 2014). First, firm growth rates tend to resemble a tent-shaped Laplace distribution. In other words, the majority of firms are not growing at all, but a small percentage are growing rapidly, and at the other end of the distribution, a small number are rapidly contracting. Second, the use of different indicators such as sales or employment growth results in a far from identical set of firms qualifying as HGFs. Third, HGFs tend to be younger than the average firm in each major size category. Fourth, HGFs are broadly distributed across the economy and are not overly represented in technology-intensive industries. Last but not least, HGFs tend to grow in short bursts; HGFs in one period often do not qualify as HGFs before or after their high-growth period.

Much of the research that has provided the empirical foundation for these stylized facts comes from the economics discipline. Researchers in the field of strategic management have produced their own set of largely complementary findings. As summarized by Demir, Wennberg, and McKelvie (2017), the following factors appear to serve as strategic drivers of HGF growth:

1. **Human capital of the founder.** Studies have found a positive relationship between the education level, managerial experience, and domain expertise of the founding entrepreneur and high growth. Domain expertise includes both industry and entrepreneurial experience.

2. **Strategy.** In general, research indicates a positive relationship between formal strategic planning, the pursuit of a differentiation strategy, and HGF status.
3. **Human resource management.** Demir et al. (2017) identified 11 studies that focus on the relationship between human resource management practices and high-growth. In broad terms, these studies find that effective employee selection practices, investing in employee training, and well-designed managerial and employee incentive systems are positively related to high growth.

4. **Innovation.** There does not appear to be a straightforward relationship between innovation and growth. Some studies have shown a positive relationship between innovation indicators such as R&D spending, patents, and rapid growth (especially with manufacturing firms). However, Hözl (2009) found a positive relationship between investments in innovation and high growth only in firms located in countries close to the technological frontier. Demir et al. (2017:447) conclude that the links between product and process innovation and high growth are “poorly studied” in the HGF literature.

5. **Capabilities.** Demir et al. (2017:447) refer to capabilities as denoting “an ability to purposefully enact resources, practices, and processes as well as to change, modify, and replace these in order to achieve certain goals or ends beneficial to the firm.” These authors found a handful of studies showing a positive relationship between capabilities (managerial, financial, and innovation) and HGF status.

There has been surprisingly little attention paid in either the economics or strategic management literature to contextual factors, such as the location of HGFs. One notable exception is the Acs et al. (2008) study. These authors utilize two large data sets to create perhaps the most comprehensive database of HGFs in the United States used in academic research to date. They found relatively little variation in the ratio of HGFs to total firms across census regions, states, MSAs, and counties. However, the range of variation tended to be greater in midsize and smaller MSAs and counties. In the smallest counties, the ratio of the number of HGFs to the total number of firms ranged from .99 percent to 3.33 percent. In another study of HGF location, Motoyama and Danley (2012) examined firms included on the Inc. 500 list. They found that the highest concentration of HGFs in a large MSA was in Washington, D.C., followed by Salt Lake City, Austin, San
Francisco, and Boston. The authors did not find a uniform trend of increasing concentration of HGFs over time or strong correlations between Inc. 500 firm density and venture capital investment, academic R&D funding, federal R&D funding, or patents per capita. They found a positive relationship between Inc. 500 firm density and the ratio of high-tech to total employment as well as the number of science and engineering graduates in the area. In another study of Inc. 500 firms, Li et al. (2016) found a higher concentration of HGFs in counties with larger average establishment size, higher educational attainment, and more natural amenities. A lower concentration of HGFs was found in counties with higher income growth, higher-paying industries, and more banks per capita.

In addition to understanding the influence of contextual factors on HGFs, another underexplored topic within the HGF literature is the ethnicity/race of the founding entrepreneur. A search of Google Scholar and Business Source Premier using such keywords as “high-growth firm,” “Hispanic,” and “Latino” did not find a single study published in a peer-reviewed journal on Latino HGFs. As previously mentioned, one of the primary themes in the limited research on Latino entrepreneurs is the difficulties these individuals face in growing new ventures. For example, Dávila, Mora, and Zeitlan (2014) found that the increase in the number of Hispanic entrepreneurs occurred at the same time the monetary rewards for pursuing entrepreneurship for Hispanics decreased when measured relative to non-Hispanic whites. In 1990, self-employed Hispanics earned 25 percent less than non-Hispanic entrepreneurs. By 2012 this gap increased to 43.1 percent.

Lofstrom and Wang (2006, 2007) address additional challenges facing Hispanic entrepreneurs. They found stark differences in the educational achievement, total annual earnings, and household wealth of Hispanic Mexicans and non-Hispanic whites. Only 9 percent of self-employed Mexican Hispanics had earned a college degree versus 38 percent of self-employed non-Hispanic whites. The median household wealth stood at $36,537 for the Mexican Hispanic self-employed sample versus $135,036 for the self-employed non-Hispanic white sample. The authors argue that these factors shape the type of industries the two groups choose to enter and sort industries into low, medium, or high barrier to entry categories utilizing measures of financial capital requirements and educational attainment measures. They found over a four-year period that Mexican Hispanics were more likely to enter low-barrier-to-entry industries versus
non-Hispanic whites (4.4 versus 2.9 percent). In contrast, the entry rate for Mexican Hispanics in medium-barrier (1.8 percent) and high-barrier industries (.2 percent) is significantly lower than the entry rate for non-Hispanic whites (3.4 percent and 1.9 percent, respectively). Perhaps due to the intense competition characteristic of low-barrier-to-entry industries, Lofstrom and Wang (2006) report that yearly exit rates for Mexican Hispanics was 20.5 percent versus 11 percent for non-Hispanic whites.

The 2015 and 2016 SLEI reports provide additional data and insight regarding the growth challenges faced by Latino entrepreneurs. As mentioned, LOBs are considerably smaller than NLOBs. The report discounts two explanations for these size differences. First, there are not large differences in the average size of firms in industries that LOBs are most likely to enter as compared to those with a higher ratio of NLOBs. Second, only 20 percent of LOBs state that they have a “mostly Latino” customer base and are not limited by the size of the local ethnic marketplace. The authors preferred explanation for the small size of LOBs is the preference of Latin entrepreneurs to start businesses for internal reasons as compared to the pursuit of market opportunities, limited initial financial resources, difficulties in accessing external financing, a preference to not accept outside capital, and a lack of awareness of government programs that provide grants for small businesses. The 2016 SLEI report compared scaled and nonscaled Latino-owned firms. Scaled firms were defined as those that met one or more of the following criteria: at least $1 million in annual revenue, employs 50 or more people, or has grown substantially over the last five years. Scaled firms were more likely to have immigrant and highly educated owners, tap into more sources of capital, make greater use of external capital, and have larger networks. They also found that “Latino owners of all firms, regardless of scale, report similar reasonings to become entrepreneurs and similarly high expectations for their firm’s growth” (SLEI 2016:17).

In this section we briefly reviewed the HGF and Latino entrepreneurship literature. HGF studies tend to focus on the contribution of these firms to employment and revenue creation as well as their primary characteristics and growth strategies. There have been very few HGF studies with a focus on minority entrepreneurs. The influence of the local context on the founding and growth of HGFs is another underexplored topic in the literature. Finally, research on Latino entrepreneurs tends to emphasize the rapid increase in the number of LOBs (often in low-barrier-to-entry industries) and the profound differences in the performance of LOBs and NLOBs.
THE RESEARCH CONTEXT: THE SOUTH TEXAS BORDERLANDS

The MEM MSA represents a somewhat unique location in which to examine the influence of the local context on the emergence and development of HGFs. The MEM MSA has the lowest per capita personal income of any MSA in the United States, and 33.5 percent of residents live below the poverty line (U.S. Census 2017). Hispanics/Latinos account for 91.3 percent of the local population, and an estimated 82.3 percent of residents speak Spanish at home (U.S. Census 2017). Educational attainment is low, with 62.1 percent of the population ages 25 or older with at least a high school diploma and 16.7 percent with at least a bachelor’s degree (vs. national averages of 88.4 percent and 32.5 percent, respectively) (U.S. Census 2017). Mean hourly wages are 30 percent lower than the national average (Bureau of Labor Statistics 2017), and a significantly lower percentage of individuals are employed in high-paying occupational groups such as management, business and finance operations, computer and mathematical, architecture and engineering, and legal when compared to national averages. A significantly higher percentage are employed in low-paying occupational groups such as education and training, health care support, and personal care and service. There are no publicly listed companies headquartered in the MEM MSA.

The region is a major center for trade between the United States and Mexico. In 2017 the Hidalgo port of entry was the highest-volume entry point for fruit and vegetable imports from Mexico to the United States (USA Trade Online 2018). In addition, as of December 2017, 116,980 individuals were employed in maquiladoras directly across the border in Reynosa (a city of roughly 1 million people) (INEGI 2018). Not only do goods and services cross the border in large volumes, but so do illegal drugs and people without legal permission to enter the United States (smuggling has been a major regional industry since at least the 1840s; see Díaz 2015). With over 3,000 employees, U.S. Customs and Border Protection is one of the largest employers in the region. For the fiscal year ending in September 2017, the U.S. Border Patrol reported that the Rio Grande Valley sector experienced the highest number of overall apprehensions (other than Mexican apprehensions) and nonresident alien deaths compared to any other sector on the U.S.-Mexican border (U.S. Border Patrol 2017). The sector is also the primary entry point into the United States for families and unaccompanied minors fleeing gang violence in Central America. While
these statistics give the impression of a general state of lawlessness, crime statistics show that the MEM MSA has a lower rate of violent crime per 100,000 population (287) than several other large MSAs in Texas such as Houston (559), San Antonio (460), and Dallas (318) (Solomon 2015).

Several of the characteristics of the MEM MSA are related to the HGF research findings given in the section above titled “High-Growth Firms, Location, and Latino Entrepreneurs.” For example, Demir et al. (2017) found a positive relationship between the human capital of the founder (including formal education) and high growth. Motoyama and Danley (2012) found a positive relationship between Inc. 500 firm density and the ratio of high-tech to total employment and the number of science and engineering graduates in an area. Given the low per capital incomes, low levels of educational attainment, and the above average percentage of people working in low-paying occupational groups, research would suggest that HGF firm density will be low in the MEM MSA. While we do not test HGF firm density directly, our study provides considerable insight into the characteristics of HGFs that have emerged in a Latino-dominated economically and educationally challenged region on the U.S.-Mexican border.

RESEARCH METHODS

For purposes of this study we define HGFs as firms with at least $100,000 in initial sales that then experienced an average annual increase in the number of employees and/or sales of at least 20 percent over a three-year period. In our sample we include firms that experienced rapid growth in the most recent three-year period as well as in more distant periods. One of the main challenges facing researchers studying low-frequency phenomena such as small and midsize HGFs is to identify a valid sample. We adopted a number of strategies to locate locally owned Latino HGFs. First, the authors have been faculty members at the public university in the MEM MSA since 1997. The first author has taught entrepreneurship classes since 2005, and a standard requirement for students is to interview an entrepreneur and write up a case study of that person’s experience. We identified entrepreneurs from the case write-ups who qualified as HGFs given our definition. Second, when we interviewed entrepreneurs from the initial list, we asked if they would recommend other business owners they knew who were leading HGFs. Third, we interviewed the presidents of the McAllen,
Mission, and Edinburg economic development corporations as well as the presidents of the McAllen and Mission chambers of commerce and asked for their help to identify HGF founders. Finally, we reviewed the business section of the local paper as well as specialized business publications with the goal of identifying additional HGF entrepreneurs.

We developed a semistructured interview questionnaire based on common themes identified in the mainstream HGF literature (see Appendix 8.1). Topics include company history, the founder’s background, the founder’s preference for growth and if this preference had changed over time, measures of sales and employment growth, whether the company had experienced consistent or erratic growth, growth goals in the next five years, significant growth barriers, strategies to overcome barriers, whether the entrepreneur had received support from government agencies such as the local Small Business Development Center during startup, why they chose to locate their business in the MEM MSA, similarities and differences in creating an HGF locally compared to larger cities such as San Antonio and Austin, and who they rely on for business advice. Follow-up questions were used to explore these and other topics. Interviews were conducted primarily by the lead author and took place during the summers of 2016 and 2017 at the entrepreneurs’ places of business. The interviews typically lasted from 45 to 75 minutes. Detailed notes were taken during and immediately after the interviews.

**FOUNDER BACKGROUND, GROWTH BARRIERS, AND CREATING A LATINO HGF IN THE MEM MSA**

Table 8.1 provides information on the founder (gender, age at the time of the interview, education, and birthplace), and his/her company (industry, startup year, and number of employees at the time of the interview). There are 13 males and 1 female in our sample. Nine of the 14 had earned a college degree, often from the local public university in disciplines such as finance and marketing. Only 1 individual, a Monterrey native who attended Monterrey Tec, earned a degree from a private institution. Only 2 individuals had earned graduate degrees. One of these interviewees was a second-generation member of a family-run firm. He worked full-time at the family’s restaurants and completed his MBA over a six-year period, taking one class at a time. The other individual dropped out as a college
<table>
<thead>
<tr>
<th>Gender, Age, Education</th>
<th>Birthplace</th>
<th>Industry</th>
<th>Startup Year</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male, 47, UTPA, marketing</td>
<td>Reynosa</td>
<td>insurance agency</td>
<td>2001</td>
<td>38</td>
</tr>
<tr>
<td>Male, 29, attended UTPA</td>
<td>Guadalajara</td>
<td>auto care</td>
<td>2012</td>
<td>12</td>
</tr>
<tr>
<td>Male, 48, UTPA finance</td>
<td>Mercedes, Texas</td>
<td>banking, auto care, agriculture, real estate</td>
<td>1920</td>
<td>57</td>
</tr>
<tr>
<td>Male, 52, UTPA finance</td>
<td>Weslaco, Texas</td>
<td>low cost housing, fast food, construction, insurance, etc.</td>
<td>1976</td>
<td>92</td>
</tr>
<tr>
<td>Male, 45, UTPA economics</td>
<td>Reynosa</td>
<td>warehousing, freight forwarding, trucking</td>
<td>1997</td>
<td>100</td>
</tr>
<tr>
<td>Male, 45, Monterrey Tec, business administration</td>
<td>Monterrey</td>
<td>restaurants</td>
<td>1997</td>
<td>300</td>
</tr>
<tr>
<td>Male, 43, UTPA MBA</td>
<td>Sinaloa</td>
<td>restaurants</td>
<td>1987</td>
<td>1,400</td>
</tr>
<tr>
<td>Male, 25, UTPA graphic design</td>
<td>Roma, Texas</td>
<td>web design and development</td>
<td>2014</td>
<td>10</td>
</tr>
<tr>
<td>Male, 56, attended UTPA</td>
<td>McAllen</td>
<td>freight brokerage, trucking</td>
<td>1993</td>
<td>100</td>
</tr>
<tr>
<td>Male, 48, UTPA marketing/economics</td>
<td>Cuba</td>
<td>electronics retailer</td>
<td>1992</td>
<td>88</td>
</tr>
<tr>
<td>Female, mid-40s, did not complete university degree at UTSA</td>
<td>McAllen, raised in Reynosa</td>
<td>food producer</td>
<td>2012</td>
<td>5</td>
</tr>
<tr>
<td>Male, 44, high school graduate</td>
<td>Edinburg</td>
<td>sporting goods accessories</td>
<td>2011</td>
<td>31</td>
</tr>
<tr>
<td>Name</td>
<td>Age</td>
<td>Education</td>
<td>Occupation</td>
<td>Start Year</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
<td>-----------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>Male, 54, Texas State graduate, computer information systems Beeville, Texas</td>
<td>54</td>
<td>Texas State University, Computer Information Systems</td>
<td>fast-food franchisee</td>
<td>1987</td>
</tr>
<tr>
<td>Male, 50, UTPA dropout, returned 20 years later to obtain BA/MBA Rio Bravo, Mexico</td>
<td>50</td>
<td>University of Texas Pan American</td>
<td>service provider for developmentally disabled</td>
<td>2004</td>
</tr>
</tbody>
</table>

1. UTPA stands for the University of Texas Pan American. This university merged with the University of Texas at Brownsville in 2015 to form the University of Texas Rio Grande Valley.
2. Monterrey Tec, officially known as the Instituto Tecnológico de Estudios Superiores de Monterrey, is a large internationally recognized private university located in the state of Nuevo Leon roughly 150 miles from the MEM MSA.
3. Mercedes, Weslaco, and Roma are all small cities located on or close to the U.S.-Mexican border close to the MEM MSA.
4. Sinaloa is a state located on Mexico’s west coast.
5. Beeville is a small town located about 180 miles north of the MEM MSA.
6. Rio Bravo is a border city located about 15 miles east of Reynosa.
freshman to take a full-time job. After 20+ years working and growing his
startup to 140+ employees, he returned to the local public university and
completed his undergraduate degree in management, followed by an MBA
from the same institution. In the spring of 2017 he completed his first
semester of a weekend/online doctoral program in leadership. One of his
primary motivations for returning to school is to be a better example for
his children. Four individuals in our sample had not completed a college
degree, including 1 who ended his formal education immediately after
high school.

Seven of the 14 founders are immigrants, including 1 from Cuba. The
ages these individuals moved to the United States varied from 5 to the
late 20s. The one female in our sample was born in McAllen but raised in
Reynosa. As a child she spent the great majority of her time in Reynosa
and only moved to the Texas side of the border when her parents insisted
that she attend high school in McAllen and improve her English.

Consistent with the literature, sample HGFs compete in a wide range
of industries. Only one is in a technology intensive industry (web design
and digital marketing). There are several serial entrepreneurs in our sample.
One individual currently serves as the CEO and major stockholder of a
growing bank while maintaining at least three side businesses. Another
individual serves as the CEO of a nonprofit. He and his team have set
up several for-profit enterprises in industries such as fast food, insurance,
back office services, and construction. The profits from these enterprises
help finance the activities of the nonprofit. Another individual started a
freight brokerage firm in the 1990s. This company recently merged with a
similar firm in the Pacific Northwest with the goal of the combined com-
pany going public. The founder has maintained his ownership position in
the larger company but stepped down from an operational role. In 2015
he started a rapidly growing trucking company serving the international
trade community. There are also two second-generation entrepreneurs
operating as part of family firms. In one company, the father is a very
successful Mexican customs broker in Reynosa serving the maquiladora
industry. The son set up U.S.-based warehousing and trucking companies
that complement the father’s Reynosa operation. The second family com-
pany competes in the restaurant industry. The father established the first
restaurant in Sinaloa in the 1970s and, after expanding in Mexico, set up
U.S. operations in the early 1980s in Los Angeles. The U.S. operation
was sold to a large franchisor, after which the family established a new restaurant concept. This business has expanded to include three separate but related restaurant chains. The son currently serves as CEO and has led the expansion of the company in the MEM MSA and adjacent regions.

In the rest of this section we focus on our interviewees’ responses in three areas: founder background and startup details, major growth barriers, and founder views of the similarities and differences in creating an HGF in the MEM MSA as compared to locations in central Texas such as San Antonio and Austin. Exhibit One contains short summaries of the background and startup details of seven of our sample Latino HGFs. The entrepreneurs not included in Exhibit One also have notable startup experiences. The founder of the auto care business grew up in Guadalajara, where his father required him and his brother to work on the family car to earn their allowance. During this time, the founder “had a passion for creating money” and sold candy at school to his classmates as well as miniature cars at the local flea market. In the United States his first job was at Burger King (he left due to a dispute with the manager), followed by a position with a produce broker. After a particularly frustrating day he came home and told his wife he was done with produce. His wife told him he loved cars and should open a car care business. The female entrepreneur in our sample grew up in an upper-class family in Reynosa. After graduating from high school, she attended a university in San Antonio. She fell in love, got married, had children, did not complete her degree, ended up divorced, and moved back to the MEM MSA. An aunt of hers had produced a specialized food product for more than 30 years in Mexico. While in San Antonio the female entrepreneur made this product at her home and gave or sold it to friends. Back in the MEM MSA she started and ran a restaurant for two years. After she sold the restaurant, the new owner came to her and said that the customers continued to ask for the product. Encouraged, a friend and fellow entrepreneur convinced her to participate in a Shark Tank–like competition run by one of the local economic development corporations. She won the competition and obtained significant seed capital. The funds were used to set up a production facility, and she initially sold her product to a number of small local companies. She then competed in a new product contest sponsored by a large regional grocer. She placed second at the event and soon thereafter obtained a contract to sell her product at 50+ stores.
Exhibit One: Selected Founder Background, Startup Details

Male, dropped out of college, freight brokerage, founded in 1993. The founder attended the local university for a year and a half before dropping out. He worked at a truck stop and eventually obtained a managerial position. The truck stop rented out offices to a number of businesses, including small brokerage firms. He became friends with one of the brokers and became interested in the industry because his friend was always on the phone talking to business people from around the country. The founder left his position at the truck stop and obtained a position as a broker, and over the next several years he worked for three brokerage companies. With the third company his brother-in-law kept telling him he was making a lot of money for his boss and should ask for a raise. He did, and the request was turned down. As a result, he and his brother-in-law decided to open their own brokerage company. His father-in-law (a successful insurance agent) lent them $500,000 to get started. The company grew very quickly and at one time was the largest Hispanic-owned brokerage firm in Texas.

Male, high school graduate, sports accessories, founded in 2011. The founder was a full-time postal service employee. He had a personal need for a product as part of an activity he pursued during his spare time. The wait time to obtain the item online was from 10 to 20 weeks, and the price was high. As a result, the founder decided to see if he could make the product at home. He obtained the required materials and produced the first prototype using the oven in his kitchen to complete the molding process (his spouse was not pleased). In 2011 they moved to a larger home, and production began in their two-car garage. Initial sales were primarily through eBay. By 2013 they had outgrown the garage and moved to a larger shop. In 2013 the founder retired from the postal service and dedicated himself full-time to the business. By 2015 they had outgrown the shop and moved into a larger facility. By 2017 they were again planning to move to a larger facility.

Male, college graduate, insurance, founded in 2001. The founder was born in Reynosa but immigrated to McAllen when he was five. After graduating from the local university, he quickly became one of the top salespeople for a national industrial products distributor. His immediate boss stated that he was going to be promoted to run the company’s Mexican operation. His boss was fired before the offer was formalized. After unsuccessfully
interviewing for the Mexican position with his new boss, on the flight home from San Antonio the founder sat next to a distant relative who was coming to the valley to identify a franchisee for a well-known insurance company. By the end of the flight he was offered the position. He was not particularly excited about the possibility. He discussed this at dinner with his mother and brother. While he was talking, his brother wrote a check for $20,000 for the franchise fee and startup costs and handed it to him (his brother was employed by a large multinational in an engineering position; he later joined his brother as co-owner). The first year was very difficult; his wife told him he was a *pendejo* (a stupid person) and that he should have opened a Subway. By the late 1990s the agency was among the top 10 producers in the country. The founder set up his own agency selling policies from multiple companies in 2001.

Male, college graduate, electronics, founded in 1992. The founder immigrated from Cuba when he was 11. The family intended to settle in Miami but came to McAllen on what was supposed to be a two-week trip so his mother could see her sisters for the first time in 20 years. They ended up staying. Middle class in Cuba, the family struggled financially. For several years father and son sold electronics at one of the local flea markets to make extra money. The founder attended the local university on a full athletic scholarship while continuing to sell at the flea market. His parents had saved $17,000 to be used for his college education, not anticipating that he would have a scholarship. After graduation he used these funds as well as merchandise from the flea market to open his first electronics store in McAllen.

Married couple, college graduates, fast-food franchisee, founded in 1987. The founding couple met in high school in a small town 70 miles north of the MEM MSA. Both came from families of modest means and worked at the local fast-food franchise. The franchise owner was a major influence on the couple and helped convince the founder to attend college (he was the first in his family to obtain a college degree). On a business trip to McAllen, the founder stopped by the local restaurant of the same national chain (a run-down location and one of the lowest-performing restaurants in the franchise system). The couple ended up buying the store with $18,000 they had saved in a tennis can and a loan cosigned by their former employer.
Male, college dropout when company was founded, service provider for individuals with developmental disabilities, founded in 2004. The founder immigrated from Mexico when he was 10 with his mother and siblings. Family income was significantly below the poverty line for the next several years. After high school the founder enrolled at the local public university. He needed a job, so he went to the university’s placement office and soon thereafter obtained a part-time position as a driver at a company for the developmentally disabled. His intention was to drive in the morning, attend class, and then drive in the evenings. He was offered a full-time position soon thereafter and dropped out of school. After two decades of working in the industry the founder became CEO of a large organization in the same industry. He attended a session about how to get an operating license. The owner found out and immediately fired him and two colleagues. Unable to obtain a loan, they self-financed the launch of their business.

Male, college graduate, banking, founded in 1920. The bank existed for 80 years, with one branch serving a rural community northeast of the MEM MSA. The entrepreneur remembers accompanying his father (a farmer) to the bank as a child and being very impressed. He earned a finance degree at the local university and was hired as a credit analyst at a large locally owned bank. After six years he joined a national firm as a financial adviser. After six years there he was hired by a different national financial firm and joined its investment group. He eventually became the manager for the entire South Texas region. In 2000 he joined another financial firm and eventually managed a portfolio that approached $1 billion. The great majority of these funds came from Mexican companies and investors in Monterrey. In 2007 he left this opportunity and dedicated himself full-time to the ventures he and his brother had started (at one time his brother was chairman and CEO of a large locally owned bank). Given that the brothers were generating excess cash throughout their careers, in 1991 they purchased a car wash. Over the next 15 years they acquired 32 additional locations. In addition, they purchased 3,000 acres of farmland that they actively manage. The brothers also purchased a number of commercial properties that they renovated and leased out. They purchased shares in the bank in 2001. Serving on the board of directors, the founder helped design and implement a growth strategy. The brothers bought additional shares in 2007, and the founder took over as CEO in 2014.
Exhibit Two contains short profiles of the types of growth barriers encountered by our Latino HGF founders. The first example provides an especially intriguing lens into the dynamics faced by many companies competing in the MEM MSA. This includes the challenges of competing with rivals that employ undocumented individuals and operate on a cash basis. Another interesting example of the nature of the MEM MSA market was provided by the founder of the insurance company. He stated that competition from national companies was intense in traditional areas such as home and car insurance. To compete, they like to “swim against the current” and focus on nontraditional areas such as insurance for mobile homes. While these homes may only be worth $20,000 to $30,000, if owners want to obtain a home improvement loan they often cannot because the property is not insured. The company had recently established a call center, and one of the goals was to use bilingual local employees to sell insurance to Spanish-speaking customers in the Texas panhandle. The founder of the company serving the developmentally disabled also viewed the company’s ability to interact with Spanish-speaking consumers in central Texas as one of its primary competitive advantages in those markets.

Exhibit Two: Major Growth Barriers

Auto care, 12 employees, founded in 2012. The founder stated that the biggest barrier to business in the area was the nature of the local market. McAllen is not a Mexican city, but it is also not an American city. “To figure out what the consumer wants in the area businesswise is very difficult. . . . You can’t have a product just for the Mexican consumer or just for locals.” Another barrier is that “businesses in the area give away their services.” The founder stated that he doesn’t understand how many of the company’s competitors make money. He believed that many of these companies hire undocumented individuals, pay them less than the minimum wage (often under the table), and even then often go out of business in short order. Due to this type of competition, when formal companies try to charge what their services are worth, customers say prices are too high. He stated that his company’s prices are the highest in the area but are still 40 percent lower than in locations such as San Antonio and Austin. One of the company’s goals is to treat a customer with a Nissan Sentra and a customer with much more expensive car the same. He stated that many individuals in the MEM MSA come from lower-class backgrounds. When they are able to buy their
own car, they are very proud; it’s a sign that they have made it. He stated that this type of customers responds to great customer service.

Warehousing, trucking, founded in 1997. The founder indicated that market conditions, finding capable employees, and government were all major factors slowing growth. The company was strongly impacted by what the U.S. and Mexican governments were doing on the international bridge. Accessing financing was not a growth barrier. He stated that there had been multiple times when he requested a loan and the banks would say yes, but then the paperwork would require a second lean in order to get 100 percent financing. He didn’t like this and instead would put in his own money to cover 20 percent of the loan. Finding capable management was also not a major growth barrier. Many of his supervisors and managers had been with him for more than 10 years.

Restaurants, 300 employees, founded in 1997. The founder stated that major growth barriers included their inexperience, lack of knowledge, and shallow networks. When asked if access to finance was a barrier, he stated no. He and his partners paid cash to get the first restaurant started. After that, “Once the bankers saw the numbers the loans kept coming.” A significant number of their customers are from Mexico. The peso devaluation, the security situation, and Donald Trump and his anti-Mexican talk had contributed to a major drop in demand. Middle- and upper-class Mexicans who might have vacationed on South Padre Island are now going to Cancun. Also, if Mexican nationals have a bad experience with U.S. Customs at the international bridge, that will have a strong impact on whether or not they come back. At times “the Border Patrol is not nice. . . . In the end it affects everything. . . . Everybody should be worried about this.”

Electronics, 88 employees, founded in 1992. In addition to U.S. sales, the company acts as a distributor for Mexico and other Latin American countries. To support this operation, the founder maintained an account at the Reynosa branch of a large multinational bank. In 2008 the branch manager was threatened and provided details on his largest customers to the Zeta drug cartel. From that point on the founder believed that he was and continues to be a kidnapping target. At that time he began receiving threats from individuals calling his business. He began communicating on a
regular basis with local law enforcement (the police department staked out his house during one period), hired a federal agent who provided protection services when off duty, and attended a “two-week survival training” where he learned tactics such as how to dress casually, regularly change his day-to-day routine, and reduce/eliminate his presence on the web. He limits his travel in Mexico and continues to view as risky what most people believe are relatively safe cities such as Monterrey. Changes to the banking laws that made it difficult for Mexican nationals to maintain bank accounts in U.S. border cities and the negative perception of the Trump administration with this same group represent additional growth barriers. The founder stated that a significant number of Mexicans living in the area were self-deporting.

Restaurants, 600 employees, founded in 1987. When asked about major growth barriers, the founder stated, “We limit ourselves.” The company was transitioning from a mom-and-pop operation to a professionally run firm. The founder did not view obtaining new financing as a major growth barrier. The regulatory environment was a concern with changes such as the Affordable Care Act and new food labeling regulations. These were not major issues but needed to be addressed. The founder stated that there was a positive business climate in Texas, and with the changes shaping the Rio Grande Valley there was room for those who wanted to be a part of it.

Services for the developmentally disabled, 360 employees, founded in 2004. The most significant growth barrier was the lack of Medicaid funding. Individuals who fit the Medicaid criteria may have to wait up to 10 years before they actually receive services due to insufficient funding.

We found three other themes that emerged from our questions in regard to growth barriers as being particularly noteworthy. The first is that many of our Latino HGF founders did not view access to finance as an issue. One interviewee stated that “once the bankers saw the numbers the loans kept coming.” The second was the dependence of the MEM MSA economy on the Mexican economy and the quality of U.S.-Mexico relations. A number of our interviewees stated that the election of the Trump administration had resulted in fewer Mexican nationals purchasing their goods and services. One stated that the change of U.S. president had contributed to their worst quarterly performance ever. Another mentioned that he was aware of a number of Mexican nationals who were “self-deporting” due
to the perception of increased anti-Mexican sentiment emanating from the U.S. government. The security situation in Mexico also represented a growth barrier for a number of our sample LHBOs. Our bank CEO mentioned that one reason he had left his position working with large Mexican firms and wealthy Mexican nationals in 2007 was due to his perception of deteriorating market conditions in Mexico resulting from the violence associated with the drug trade. Another of our interviewees dramatically cut back on business travel south of the border after receiving kidnapping threats and experiencing the trauma caused by the kidnapping of a close friend’s relative. One of the trucking firms in our sample is authorized to transport goods in the Mexican interior. However, the firm is not willing to put its vehicles at risk and instead focuses on the drayage business (i.e., moving goods across the international bridges).

Exhibit Three contains a number of excerpts from our interviewees regarding the advantages and disadvantage of building an HGF in the MEM MSA as compared to large cities in central Texas. Surprisingly, there was little mention of the lack of wealth in the local community as a major factor limiting growth. One dynamic that was mentioned by a number of our interviewees with businesses that served local consumers is that competition is less intense in the MEM MSA as compared to larger cities. This was viewed as a major benefit, especially during the startup and early growth phases.

Exhibit Three: Challenges of Creating an HGF in the MEM MSA Compared to Cities in Central Texas

Insurance, 38 employees, founded in 2001. The founder stated, “The Valley is the last frontier.” The cost of living is low, the cost of labor is low, and housing is available for a reasonable price. He stated that if you include everybody within 250 miles from McAllen, there are 25 million people. “The Valley is a great place for us [i.e., Hispanics]. We have access to two countries, and Mexican nationals are very fond of the Valley. . . . The culture will take you in.”

Social enterprise with multiple for-profit affiliated companies, 92 employees, founded in 1976. The CEO stated that it is easier in the area. There is a younger pool of talent, and it is an easier environment to work in because it is a smaller community.
Banking, founded in 1920. Our interviewee stated that there were differences; for too long the contribution made by the region to growth in Texas was ignored. The founder stated that with developments such as Space X (the company is building a launch facility in the area), the medical school (established at the public university in the region in 2016), and the new Texas A&M campus (scheduled to open in 2018), the area was positioned for rapid growth over the next 10–20 years. Other businesses associated with traditional industries such as farming and serving the Winter Texan community will also do well. He stated that the area is a great place to be for those looking for opportunity and to raise a family.

Warehousing, trucking, founded in 1997. The founder stated that the nature of his business requires it to be on the border. When he got married the first question from his wife was whether they could move to San Antonio. He said no; the next question was whether they could live on South Padre Island. He said that his would require him to commute all the time. He left it with his wife that “We’ll play it by ear” (they have been married for 10 years and continue to live in the MEM MSA).

Restaurants, 600 employees, founded in 1987. The founder stated that “I believe here in the area there is more opportunity. I believe there are fewer people competing in the market; to put it bluntly, you have the opportunity to be a bigger part of something in this type of community. Here they are looking for people that want to be involved.” They had “glanced” at other areas such as the Dallas–Fort Worth metroplex, but “there is the opportunity to be part of something good here if you are doing things for the right reasons. . . . There is a great deal of need and opportunity.”

Services for the developmentally disabled, 360 employees, founded in 2004. The founder stated that the valley is very different. Everybody in central Texas thinks that the valley is in Mexico. However, he has found communication and cooperation to be better in the area as compared to other locations in the state. Individuals at one of his competitors in the area had been very helpful, and they continue to cooperate when doing so helps patients. In contrast, they had tried to set up group homes in Central Texas. The neighbors complained about having people with disabilities in the community. They received eviction notices and eventually shut down three group homes.
The goal of this study has been to increase our collective understanding of HGFs in general and Latino HGFs operating along the U.S.-Mexican border in particular. Rather than develop and test formal hypotheses, we utilized an inductive methodology to gain a detailed understanding of our sample entrepreneurs and their experiences in creating a rapidly growing firm. One of the standard recommendations for researchers utilizing qualitative methodologies is to continue to collect data until common themes emerge and little additional information is gained from more interviews or additional time in the field. We have not reached that point with our exploration of Latino HGFs in the borderlands. Our interviewees each have a unique story to tell regarding the start and growth of their companies. We found little consistency in major growth barriers encountered, views toward the advantages and disadvantages of the MEM MSA as a location for HGFs, and other areas covered in our interviews. The lack of common themes and the significant variation across our sample is in and of itself a valuable finding. Further study is clearly needed before we can arrive at well-supported conclusions that could be used for robust theory development or public policy recommendations.

We do believe that it is useful, even with the limitations discussed in the prior paragraph, to evaluate information gleaned from our interviewees and compare those insights to the list of HGF stylized facts discussed by Coad et al. (2014), the drivers of HGF growth summarized in Demir et al. (2017), and research on Latino entrepreneurs. Mainstream research suggests that HGFs are broadly distributed across the economy and are not overall concentrated in technology-intensive industries. In our study we found only one firm, a web design and development company, that qualifies as a technology-intensive HGF. This company grew rapidly in its first three years, but whether it continues to grow remains an open question. Sample firms compete in a diverse set of industries, with bias toward those involved in one form or another with international trade and Mexico.

Another stylized fact presented by Coad et al. (2014) is that HGF growth is often erratic. The methodologies used to support this conclusion often do not allow researchers to explore the reasons for this volatility. Our results do not fully support the erratic growth hypothesis. Some firms clearly experienced steady growth over long periods. For those experiencing
erratic growth, the reasons for the volatility appear to be highly idiosyncratic. The growth (or lack thereof) of the company serving the needs of the developmentally disabled was dependent on the amount of federal funding administered by the State of Texas. The brokerage company in our sample was strongly impacted by the drop in demand resulting from the Great Recession starting in 2007. In contrast, the banker/real estate developer in our sample was able to buy commercial real estate at attractive prices and carve out a compelling comparative advantage for the bank he leads during the same recession.

In their review article Demir et al. (2017) argues that the human capital of the founder serves as a driver of firm growth. This includes the founder’s education level, managerial experience, and domain expertise. An interesting finding from our study is the relatively low level of formal education within our sample as well as the nature of that education. As mentioned, only 9 of the 14 interviewees had earned a college degree, and only 1 graduated from a private institution. We would attribute this level of formal education to the backgrounds of the founders; the majority of our interviewees came from lower-class or lower middle-class backgrounds where it was rare for the parents to have a college degree. Shaped by their environment, formal education at elite higher educational institutions at either the undergraduate or graduate level is not part of the educational background of our sample entrepreneurs. However, the narratives suggest that the entrepreneurs each developed deep domain expertise and managerial experience early in their careers. The founder of the company serving the needs of the developmentally disabled as well as our serial entrepreneur turned bank CEO were promoted to top managerial positions in large companies in their respective industries. The founder of the insurance company in our sample took his franchise operation from founding to one of the top-performing locations in the country before starting his own insurance agency.

A widely recognized characteristic of Mexican and Mexican American culture is the importance of family. One of the dynamics that emerges from our sample is the importance not only of the human capital of the founder but also the complementary skill sets and capital provided by family members. The Latino HGF fast-food franchise was founded and led by a husband/wife team. The banker in our sample and his brother both pursued successful careers in large institutions while coinvesting in and managing car washes, farm operations, and a real estate company.
The largest restaurant chain is a classic Mexican/Mexican American family business operated by multiple generations where family and business dynamics continuously intermingle. The freight brokerage was started due to a brother-in-law pushing the founder to ask for a raise and then to do something about it when his boss said no. Startup funds were provided by the father-in-law, and the entrepreneur and his brother-in-law served as co-CEOs for many years.

Another factor that we believe is a major strength for the entrepreneurs is their knowledge of border culture, the idiosyncrasies of Hispanic consumers in the area, and their bilingual abilities. The founder of the Latino HGF serving the needs of the developmentally disabled has expanded to central Texas through forming relationships with Hispanic consumers in those locations. The banker and his brother have a long track record of providing financial services to Mexican consumers (many of whom purchase second homes and invest in businesses in the MEM MSA) as well as other border residents. The company with the greatest number of employees in our sample specializes in providing authentic Mexican food to largely Mexican and Mexican American Spanish-speaking consumers. Our interview at the freight brokerage was interrupted a number of times by urgent telephone calls during which our interviewee would respond in Spanish. It is difficult to imagine these entrepreneurs being as successful as they are without an in-depth knowledge of border culture, the proclivities of consumers in the borderlands, and Spanish-language fluency.

The SLEI 2015 report found that only 20 percent of Hispanic-owned businesses served a “mostly Latino” consumer base. In contrast, our Latino HGF entrepreneurs serving the local consumer market targeted Mexican American and Mexican consumers. While the location of this study is somewhat unique, Hispanics are currently the largest minority group in the United States, and their numbers are rapidly increasing. In the Hispanic-dominated minority-majority communities common in states such as Texas, California, and Florida, the assumption that specializing in serving the needs of ethnic consumers places an upper limit on growth may be outdated. We believe this is an important question for future research.

One of the areas of inquiry in this study was to better understand the challenges of creating and managing Latino HGFs in an economically disadvantaged MSA as compared to larger cities with well-developed entrepreneurial ecosystems such as Austin and Dallas. We received a wide range of responses from our interviewees in regard to this line of questioning. The
Latino HGF serving the developmentally disabled assisted Hispanic clients in larger cities but stated that the business climate was better along the border. The company’s growth was primary coming from the border rather than central Texas. The fast-food franchisee believed that there were unmet needs in the community and a relatively low level of competition and that community leaders were proactively looking for capable businesspeople to champion. During our interview the entrepreneur leading the largest employer in our sample stated when the company opens new restaurants in the MEM MSA and surrounding areas, they are immediately profitable due to the strong brand recognition with local consumers and visitors from Mexico. This was not the case with San Antonio locations, where it took much longer to build a loyal consumer base. We believe that much more research using a variety of methodologies needs to be done to better understand how local environments shape the frequency of occurrence and characteristics of HGFs.

To conclude, in this study we utilized an inductive, qualitative methodology to explore the dynamics of Latino HGFs operating in the MEM MSA. Inductive methodologies are particularly valuable for identifying relationships between variables that can feed into deductive, quantitative studies. Our research has identified a number of factors that we believe merit further exploration, such as rethinking the relationship between measures of human capital and its relationship to firm growth and the creation of Latino HGF competitive advantage through a focused strategy of serving the wants and needs of the rapidly growing Latino community. We hope this study serves to spark additional study of high-growth LOBs, especially those operating in minority-majority communities. While our sample size is small and our conclusions are tentative, we are encouraged by the frequency with which individuals from lower-class and lower middle-class families have been able to create HGFs and in the process generate considerable wealth for themselves and their communities. As mentioned by our interviewees, people in other parts of the country may “think that deep South Texas is part of Mexico,” and even some local residents consider the area “the last frontier.” At the same time, our data suggest that the MEM MSA has more than its fair share of bright, ambitious individuals who move from lower to middle class and above in a relatively short period of time through their entrepreneurial activities. As shown by other recent research (Chetty et al. 2017), our study finds that the American Dream is alive and well in South Texas.
REFERENCES


APPENDIX 8.1
Semistructured Interview Questions

Date: 
Start Time: 
Interviewee: 
Position: 
Company: 
Date company founded: 
Company history/highlights: 

Founder Background
Age: 
Hometown: 
Education: 
Prior employment: 
How/why did you select this industry/business? 
Do you have an ownership interest in other businesses? 
If so, please describe the ventures. 
With this company, was growth always a goal? Why? 
Has the goal of growing the company changed over time? If so, how and why? 

Growth Measures

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>At time of interview</th>
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<tbody>
<tr>
<td>Employees*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Growth^</td>
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If the firm develops the way you would like it to, how many employees and what would be the level of sales five years from now? 
Employees: 
Sales: 
How would you characterize the consistency of growth at this company since the start of 2013? Consistent, steady growth or dramatic swings up and down? 
If there have been varying growth rates, what have been the reasons for the slowdown and/or decline in growth? 
How did you and the company respond?
**Growth Barriers**

On a scale of one to five with one not at all and five a very significant factor, how would you rate the following factors as significant growth barriers?

Market conditions
Finding capable employees
Government
Access to finance
Capable management

Which one of these factors (or others) represents the most significant growth barrier for this company?

What are you doing to address this growth barrier?

Did this company receive support from local, state, or federal government entities during the startup and/or early growth stages? If so, what form did this assistance take?

Why did you choose to locate your business in the area?

What is similar or different about creating a high-growth company in the area as compared to cities such as San Antonio, Houston, Austin, Dallas, etc.

Who do you go to for advice about how to grow your business and/or help solve crucial challenges?

Could you suggest other entrepreneurs leading high-growth business in the McAllen-Edinburg-Mission area who might be willing to talk to us for our study?

End Time: