Small Business Growth during a Recession: Local Policy Implications

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• Research overview
• Small business development stages
• Local small business policies
• Model
• Findings
• Conclusions
• Recommendations
Research Overview

• Relationship between local government policies and small business growth 07-08
• Small businesses at different stages of development interact with the policy environment in different ways
• Regression analysis of 109 counties based on data from ICMA/NLC survey, NETS, ACS
Small Business Development Stages

- Stages of development reflect a high level of uniformity of management, technical, financial needs and challenges.
- Utilize Edward Lowe Foundation business stage framework: self-employed; stage 1; stage 2.
- Growth in each stage reflects number of new establishments as a result of openings, expansions, relocations.
Small Business Development Stages
Self-Employed

- 36% of establishments, 7% of jobs
- “Idea” stage
- Survival dependent on competencies of owner
- Lacks business plan
Small Business Development Stages
Stage 1

• 56% of establishments, 32% of jobs
• 1-9 employees
• <$1 million annual revenues
• “Getting off the ground”, may not grow
• Lifestyle stores, mom and pop
• Focused on building market, developing product, obtaining capital
• Survival tied to skills of owner
Small Business Development Stages
Stage 2

- 8% of establishments, 35% of jobs
- 10-99 employees
- $750K-50 million annual revenues
- Past start-up, but not mature
- Greatest economic impact- external markets
- Expansion capital
- Delegation and strategic planning
• General management training, financial advising, business plan assistance, other technical assistance
• Offered through SBDC
• Counties with management and skills development programs will likely have higher levels of small business growth, particularly in earlier stages.
Policies: Market Expansion Assistance

- Small business marketing program, buy-local campaigns, group marketing systems
- Focus on local and regional customer base
- Counties with market expansion assistance programs will likely have high levels of small business growth, particularly earlier stages.
Policies: Regulatory Assistance

• Permitting and zoning assistance, streamlined permitting process

• Counties with permitting and zoning assistance will likely have higher levels of small business growth overall.
Policies: Access to Capital

• Revolving loans funds (RLF), loan guarantees, microenterprise programs
• Businesses that are above average risk, flexible source of capital, better loan terms
• Stage 2 has proven product, market niche
• Counties with programs to provide access to capital will likely have higher levels of small business growth, particularly earlier stages.
Policies: Supportive Culture

• Proactive local government leadership, clear vision, engagement of business in policy process, partnerships with industry
• Enables better understanding if problems and issues facing businesses in local area
• Counties with a supportive business culture will likely have higher levels of small business growth overall.
Small Business Growth =

Local policies

Management/Skills Development, Market Assistance, Regulatory Assistance, Access to Capital, Supportive Culture

+ 

Location Factors

Population Growth, Industry Density, Unemployment, Human Capital
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<thead>
<tr>
<th></th>
<th>All Small Business Growth</th>
<th>Self-Employed Growth</th>
<th>Stage 1 Growth</th>
<th>Stage 2 Growth</th>
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Findings: Policy Variables

- SBDC: not significant, negative
- Small business marketing program: not significant, positive
- Permitting and zoning: highly significant, positive, most influential variable in self-employed and stage 2 growth models.
- RLF: only significant in overall and stage 1, negative
- Business partnerships: significant in overall, stage 1, and stage 2, positive
Conclusions

• Most significant policies are creating a supportive culture between public and private sectors and providing regulatory assistance; rethink RLF, SBDC, marketing

• Differential relationships between policies and stages of development > although direction consistent, strength of impact varies

• Greater study of policies impacting stage 2
Recommendations for Local Government

- Assess composition of small business community
- Determine goals for how small businesses can contribute to current and future economic growth
- In collaboration with small businesses, uncover barriers to growth at each stage
- Reorient economic strategies and create partnerships
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