THE STATE OF SMALL BUSINESS IN AMERICA 2016

BABSON

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Goldman Sachs 10,000 small businesses

Executive Summary

The purpose of this report is to advance knowledge and ideas for fostering a vibrant entrepreneurial ecosystem that best supports ongoing small business growth and job creation in America. Small businesses that are explicitly intent on growing offer a critical perspective on the relationship between the U.S. business landscape and business growth. This report summarizes insights collected through a survey administered to over 1,800 small business owners across the country. The respondent pool consists of 1,679 small businesses specifically identified as growth-oriented through participation in the *10,000 Small Businesses* program (*10KSB*)[1], along with a comparative random sample of 202 businesses by size and age criteria without any explicit growth identification.

Often underestimated in the dynamics of economic growth is the role of established small businesses, those with fewer than 500 employees, which comprise 99% of all U.S. employer firms. What is also often overlooked is that existing businesses account for more than half of the private sector's net new jobs over the past two decades. This fact reinforces the importance of dedicating systematic attention and the investment of resources to *both* new and existing businesses. An emphasis on helping existing businesses scale offers enormous and largely untapped potential to create new jobs and generate economic development.

This report examines challenges and opportunities facing established small businesses around four main themes: 1) access to capital, 2) the regulatory environment, 3) workforce, and 4) technology. Key insights are highlighted below.

Access to Capital

Survey respondents overwhelmingly rely on banks as their primary source funding, and are about four times more likely to seek funding from financial institutions than any other source, reinforcing that owners' ability to borrow is often restricted by constraints facing financial institutions. Respondents acknowledge that they are not able to secure as much as they request, with owners receiving less than half of the amount they request when looking across all types of funding sources, both debt and equity. To facilitate access to credit, the majority of respondents call for more flexible terms from their lenders.

This is a central issue for financial institutions, as is the continued capacity building of Community Development Financial Institutions (CDFIs) and other mission-driven lenders, which may offer more flexible rates and terms than conventional lenders.

By educating small businesses on the variety of lending sources, models, and financing products available, we can enhance the ability of owners to select the right sources of capital to meet their business needs and stimulate growth.

Regulatory Environment

Nearly 60% of survey respondents identify some level of difficulty understanding and managing government regulations and laws. For the vast majority of companies, the owner is primarily responsible for dealing with regulatory issues. Learning about, navigating, and managing regulations and compliance consumes a substantial amount of time for a small business owner—an average of 200 hours per year. Also, the stacking of regulations from federal and sub-federal levels and the wide range of types of regulations extenuates the challenge.

Recognizing the true nature of the U.S. economy and the reality that 99% of employer firms are small businesses representing almost half of the American workforce can serve as a starting point for a consideration of regulatory impact rather than the end point.

Workforce

Resoundingly, small businesses' top challenge to hiring qualified employees is finding employees with the requisite skillset. This finding is consistent over and above salary requirements and the difficulties of competing for talented candidates.

No business ecosystem can be healthy and sustainable without a deliberate means of addressing workforce development in a way that meets the needs of all sizes of businesses.

[1] Criteria for core program admission specifies businesses to be at least two years old, have at least four employees, and have at least $150,000 in the last year's revenues.

Training

While small business owners consider finding appropriate skilled labor a challenge to their growth, they are also deeply involved in training their existing staff through a variety of approaches, from in-house one-on-one training to external group classes.

Public-private sector partnerships, especially with community colleges, offer an effective approach to address employee and business owner skills in a manner that both increases the potential growth of small businesses and provides a source of qualified labor to support that growth.

Health Care

Though more than 90% of those surveyed are not subject to requirements under current healthcare regulations, over half offer health care to at least some of their employees. Respondents see it as 'the right thing to do,' a competitive advantage, and an important retention tool. While it would seem that this could be a deterrent to hiring, very few respondents view providing health care coverage as a challenge to hiring. Those who do not provide health care cite the dollar cost as the biggest barrier.

Technology

Small business owners recognize the importance of technological tools to support the growth of their businesses. At the same time, owners concede that knowledge gaps and cost concerns related to staying up to date with what is available hinder adaption. Across all respondents, cost-related issues account for nearly half of the most significant technology issues currently facing these companies.

Anecdotal evidence suggests that many entrepreneurial training programs would benefit from expanding their teaching or training emphasis from the development *of* technology-based businesses to the development of businesses *through* technology.

Cybersecurity and intellectual property are two particular challenge areas for small businesses. More than 40% of survey respondents feel ill-prepared for cyber threats, and nearly one in five has been the victim of a cyber attack. Less than half of survey respondents know how to protect their intellectual property. The business owners desire and need better information about ecosystem resources available to support their innovation activities.

Innovation

Small business owners are innovators, active in research and development, and using innovation as a means of growing. Of *10KSB* respondents, all sharing an explicit desire to grow, 35% are engaged in research and development in a new product or service, 46% are in the process of launching a new product or service, and 62% are improving the quality of an existing product or service. Small business owners desire and need better information about ecosystem resources available to support their innovation activities, which could also include guidance in the protection of intellectual property.

Conclusion

Running through many of these issue areas is the common thread of knowledge gaps that need to be addressed to overcome these challenges, for both the business owners and the other stakeholders in the ecosystem, including lenders, legislators, regulators, and other resource providers. Many of these gaps can be addressed through training, education, and greater availability and transparency of information.

While improved and expanded training and education is a key path to enabling the success of small businesses, it is not sufficient. Changes in policy and practice are also needed to enhance the business environment, reflecting the capacities of the vast majority of companies in the country: the small ones. Small businesses—enabled by education and support systems—have the power to transform America.

Key Findings Overview

- In the U.S., existing small businesses comprise 99% of all employer firms, employ nearly half of the workforce, and account for more than 60% of the private sector's net new jobs[2]
- The purpose of this report is to advance the small business owner's perspective on how to grow in the U.S. business landscape, specifically around: capital, regulatory environment, workforce and technology. It is based on the feedback of over 1,800 respondents across the country, all employers with at least four employees and all having at least $150,000 in revenues
- Developed by Babson College, this report summarizes small business owners' insights collected through an online survey administered by SSRS, a third party, independent market research firm
- **Obtaining capital remains challenging for small businesses**
  - Respondents rely on banks as their primary source of funding, and are about four times more likely to seek funding from financial institutions than any other source
  - Small businesses receive less than half of the amounts they request. Looking across all sources of capital, overall survey respondents apply for a median amount of $100,000, but receive only 40% of their ask ($40,500)
  - Companies receiving a business and management education are more likely to obtain capital and secure a greater portion of their request
  - To facilitate access to credit, businesses are asking for more flexible loan terms
- **Businesses owners find regulation both difficult and time consuming**
  - Nearly 60% of survey respondents identify some level of difficulty understanding and managing government regulations and laws
  - On average, 4 hours per week is spent dealing with government regulations and tax compliance, which totals to over 200 hours per year
  - For the vast majority of respondents, the owner is primarily responsible for dealing with regulatory issues
- **The skills gap is overwhelmingly a small business owner's #1 issue with respect to hiring**
  - Over 70% of respondents find it difficult to hire qualified employees
  - And the reason why is notably consistent—potential candidates lack the requisite skillsets—over and above competition for talent, salary requirements, and the provision of benefits
- **Business owners value technology and are hindered by costs**
  - Nearly 80% of respondents recognize the importance of technology to the growth of their businesses, while sharing concerns about awareness and affordability of resources
  - Cost related issues account for nearly half of the most significant technology challenges currently facing these companies, ranging from the cost of new technology, to the cost of upgrades and maintenance to training
  - Business owners desire and need better information about accessible and affordable technology resources
- **Cybersecurity and protecting intellectual property are two significant areas of exposure for small businesses**
  - Over 40% of businesses feel ill-prepared, and nearly 25% have been victim of a cyber attack
  - Small business owners are innovators, and an increased focus on protecting their assets can boost their productivity and competitiveness
  - Fewer than half of business owners know how to protect their intellectual property with patents

[2] SBA Office of Advocacy. Frequently Asked Questions. Accessed April 10, 2016. https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

Introduction

Small businesses have the power to transform America. Every day, from street corner to street corner across the United States, small business owners apply their extraordinary potential to spark competition, drive innovation, build communities, and better the quality of life for citizens.

This report focuses on the job creation role of established small business owners—regardless of their age or business industry—who desire to grow and actively seek resources to support their growth.

Fostering entrepreneurship to drive economic growth has become a global mission over the past decade, supported by significant investment and policy directives. Evidence of this activity is seen in the burgeoning number of start-up encouragement programs worldwide, (e.g. Start-up Weekend, Start-up Chile, and StartupMalaysia.org). Such initiatives generally share an underlying tenet that entrepreneurship is fundamentally related to a young firm age, financial risk, and innovation, and thereby entrepreneurial growth requires the creation of new firms, especially in innovation-centered industry sectors.

Creating new ventures is indeed a critical component of a healthy, innovative, and growing economy. Those seeking to foster economic development in any particular geographic area encourage startup companies as a means to create new jobs, boost tax revenue, and stimulate innovation.

THIS REPORT FOCUSES ON THE JOB CREATION ROLE OF ESTABLISHED SMALL BUSINESS OWNERS—WHO DESIRE TO GROW AND ACTIVELY SEEK RESOURCES TO SUPPORT THEIR GROWTH.

THIS REPORT SUMMARIZES INSIGHTS PROVIDED THROUGH A SURVEY ADMINISTERED TO OVER 1,800 SMALL BUSINESS OWNERS.

However, the connection between start-ups and economic growth is more nuanced than commonly perceived and often overlooks the economic impact of existing businesses. While new firms generate many of the new jobs in the economy, job losses from start-up closures are also significant and reduce the overall net employment gain. Additionally, gazelles,[3] a term used to refer to the fastest-growing companies in the United States, represent approximately less than 1% of all companies in the economy.[4]

In the aggregate, parsing job creation between new and existing businesses, existing businesses account for about 60% of the private sector's net new jobs over the past two decades. The remaining 40% comes from the dynamic churn of jobs created by new firms minus jobs lost by start-up closures.[5] This distinction reinforces the importance of dedicating systematic attention and the investment of resources for *both* types of businesses.

An emphasis on helping existing businesses scale to a greater degree offers enormous and largely untapped potential to create new jobs and generate economic development. Therefore, the objective of this report is to advance knowledge and ideas for fostering a vibrant entrepreneurial ecosystem that best supports ongoing small business growth and job creation in America.

The collective voice of existing small business owners is essential to informing the national discussion on business growth. This report provides a unique snapshot of a robust sample of growth-minded entrepreneurs who are all employers, thereby introducing a critical perspective on the relationship between the U.S. business landscape and business growth. *10,000 Small Businesses* has worked with more than 6,300 entrepreneurs through the program, who have shared insights on a range of topics, including access to capital, hiring, training, and the economic landscape broadly. This report hones in on four topical themes related to their reported growth challenges: 1) access to capital, 2) regulation and compliance, 3) workforce, and 4) technology.[6]

This report summarizes insights provided through a survey administered to over 1,800 small business owners. The respondent pool consists of 1,679 small businesses specifically identified as growth-oriented through participation in the *10,000 Small Businesses* program (*10KSB*)[7], along with a comparative random sample of 202 businesses by size and age criteria without any explicit growth identification. When applicable, significant differences between the groups are noted in this report.[8 9]

[3] The term "gazelle" was originally coined by David Birch to describe fast-growing companies: those starting from a base of at least $1 million and growing by at least 20% per year for four years. However, the term has become more loosely used to describe high-growth firms in general. Birch, D. and Medoff, J. 1994. "Gazelles." In Lewis C. Solmon and Alec R. Levenson, eds., *Labor Markets, Employment Policy, and Job Creation.* Boulder: Westview Press.

[4] Poole, H. 2016. "Job Creation by Startups and Young Companies." Office of Legislative Research. Research Report 2016-R-0003. P. 4.

[5] "Where Are the Jobs Created? New or Existing Businesses?" Small Business Facts. SBA Office of Advocacy. Accessed March 4, 2016. https://www.sba.gov/sites/default/files/Job_Creation.pdf

[6] The focus areas of this report build on Babson College's existing research and the primary challenges to growth identified by *10,000 Small Businesses* participants, including: 'finding and keeping customers;' 'hiring and keeping good employees;' 'developing and updating a business strategy;' and 'financing my business.' "Stimulating Small Business Growth: Progress Report on Goldman Sachs *10,000 Small Businesses.*" Developed by Babson College. 2016.

[7] Criteria for core program admission specifies businesses to be at least two years old, have at least four employees, and have at least $150,000 in the last year's revenues.

[8] See VIII. Appendix for a complete overview of the methodology of this study.

[9] Samples will be denoted by the following throughout the paper: *10,000 Small Businesses ("10KSB")*, Control Group ("Control") and the combined samples ("all respondents"). All differences reported meet the p<.05 level of significance.

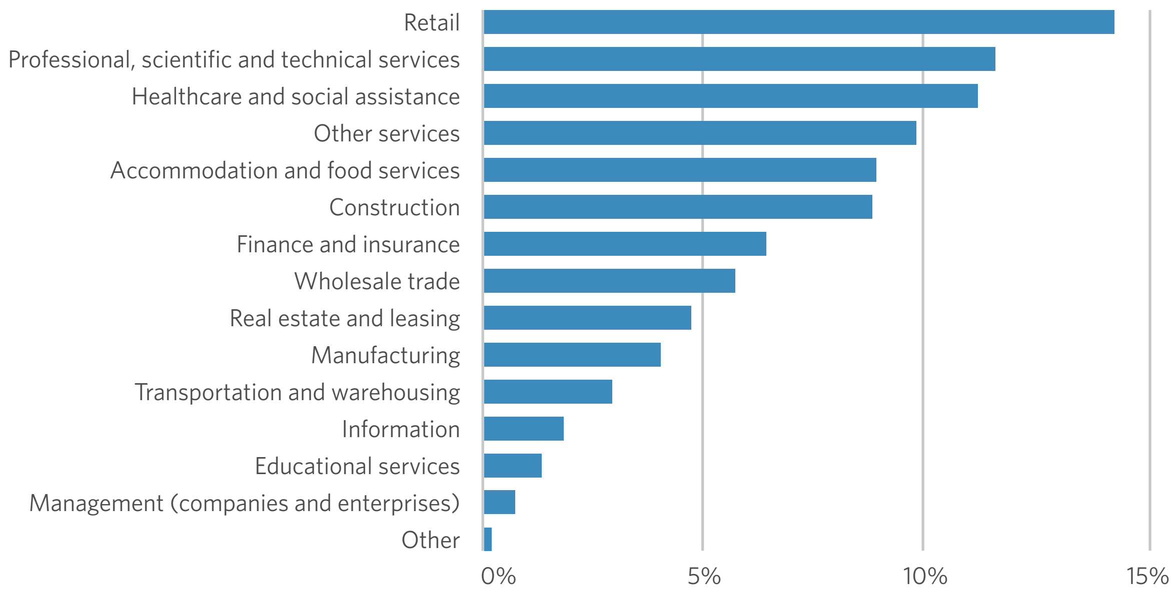
What Do We Know About Small Businesses?

In order to investigate what it takes for a small business to grow and how to best support such growth, it's instructive to first take a closer look at the economic context of small businesses in the United States. Small businesses play a critical role in the economy. According to the Small Business Administration (SBA), small businesses (those with fewer than 500 employees) comprise 99% of all U.S. employer firms and provide almost half of all private-sector employment. Small firms account for 63% of net new private-sector jobs. Overall, while the U.S. economy consists of just over 28 million businesses, less than 1% employ more than 500 people.[10] Of all employer firms in the U.S.:[11]

- 61.9% have 0-4 employees
- 89.5% have fewer than 20 employees
- 96.1% have fewer than 49 employees, and only
- 0.3% have more than 500 employees.

America's small businesses are diverse not only in firm size, but also in industry representation. In fact, given that small businesses comprise the substantial majority of the U.S. economy, the industry distribution of small businesses defines the industry distribution of the national economy *(See Figure 3.1)*. Nationally, retail represents the largest industry category (14%), followed by professional, scientific, and technical service businesses (12%), and healthcare and social assistance (11%), with all other industry sectors representing less than 10% of businesses. Where significant, this report explores differences in survey respondents' perspectives by industry sector.

Figure 3.1 U.S. Small Business Industry Distribution



[10] SBA Office of Advocacy. Frequently Asked Questions. Accessed April 10, 2016. https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20(Full).pdf

[11] U.S. Census Bureau. Factfinder.Accessed April 15, 2016. http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2012_00CSA09&prodType=table

SMALL BUSINESSES COMPRISE 99% OF ALL U.S. EMPLOYER FIRMS.

Small business owners are as diverse as their businesses, when considered by a variety of demographic characteristics, including age, sex, race, ethnicity, and education. On age makeup, a slight majority of business owners are 50 years old or older (51%), followed by 33% of owners in the 35-49 age group, and 16% in the under-35 age group.[12]

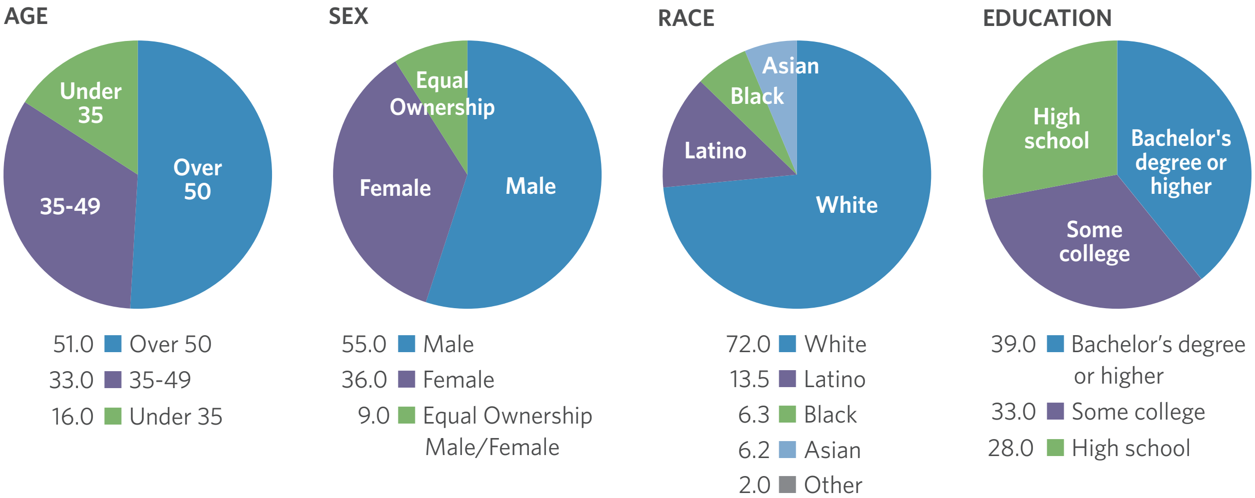
According to the U.S. Census Bureau, in 2012, 36% of U.S. businesses are majority-owned by women, and an additional 9% are owned equally by men and women. Taken together, women own at least half (i.e. at least 50% ownership) of 45% of all businesses nationally. National and global dialogue on women owned businesses increasingly focuses on the size of those businesses rather than the sheer number of them. As seen in the U.S., women-owned businesses tend to be smaller than men-owned businesses, as measured by both the average number of people they employ (women, 8.5, versus men, 13.5)[13] as well as business revenues ($130,000 versus $570,000 respectively).[14]

The racial and ethnic diversity of small business owners is increasing. A 2015 Kauffman Foundation report analyzed data on minority business owners by race and ethnicity, finding that between 1996 and 2014, the share of black business owners increased from 4.2% to 6.3%, the share of Asian owners increased from 3.8% to 6.2%, and Latino owners more than doubled (from 5.6% to 13.5%), while the share of white business owners decreased from 86.9% to 72.0%.[15]

Unlike other demographic variables, education is an acquired attribute, but one relevant for the consideration of business growth. According to the SBA, 28% of business owners have at least a high school education, 33% have at least some college, and 39% have a bachelor's degree or higher.[16]

This report builds on these statistics, and others, to increase understanding around who grows small businesses , the business environment they experience, the opportunities they pursue, and the resources and support they need to grow.

Figure 3.2 Demographic Diversity Among Small Business Owners (%)



[12] "Demographic Characteristics of Business Owners." U.S. Small Business Administration, Office of Advocacy. Accessed April 14, 2016. www.sba.gov/advocacy/847/757305 https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

[13] Silver, D. 2015. "Businesses owned by women, minorities lag in revenue share." Factank. Pew Research Center. Analysis of Census Bureau's 2012 Survey of Business Owners.

[14] SBA FAQ. Accessed April 10, 2016. Note that receipt data is from 2007, the most recent year summarized by the SBA. https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

[15] "Main Street Entrepreneurship." National Trends. Kauffman Foundation. Accessed April 28, 2016. http://www.kauffman.org/~/media/kauffman_org/microsites/kauffman_index/national_mainstreet_2015/kauffman_index_main_street_national_report.pdf

[16] "Demographic Characteristics of Business Owners and Employees: 2013." SBA Office of Advocacy. 2013. Accessed May 2, 2016. https://www.sba.gov/sites/default/files/advocacy/Issue_Brief_6_Demographic_Characteristics_2013.pdf

Capital

Access to capital is a fundamental component of innovation and business growth.

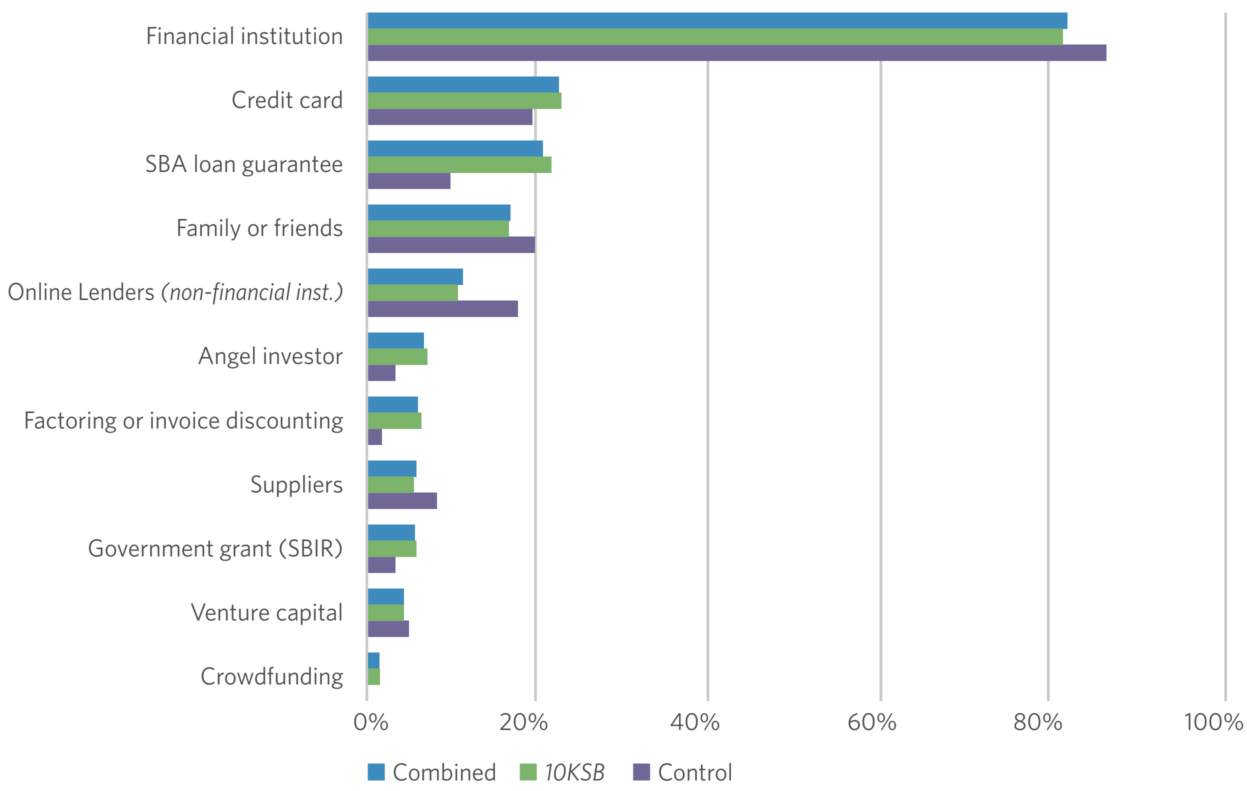
The challenge of obtaining capital remains a consistent theme for small businesses in the United States. Within a period of uneven economic recovery, many small businesses face low cash reserves and collateral values, as credit suppliers experience tougher lending restrictions.[17] As the fragmented capital market ecosystem surrounding small business owners continues to evolve, particularly with increasing players and funding sources, facilitating access to capital for small businesses has an especially paramount role in economic growth and job creation.

Evidence also suggests that market constraints have a significant impact around initial business formation.[18] This is felt in the number of jobs lost as a result of stunted conditions that small businesses face. However this inquiry is not within the scope of this report, given our analysis is based on survey results of established small businesses that are at least two years old, have a minimum of four employees, and $150,000 in revenues. As such, the first section of this report examines established small business owners' perspectives and experiences around accessing capital.

[17] "Why Small Business Lending Isn't What It Used to Be." Federal Reserve Bank of Cleveland, August 14, 2013. Accessed May 20, 2016. https://www.clevelandfed.org/newsroom-and-events/publications/economic -commentary/2013-economic-commentaries/ec-201310-why-small-business-lending-isnt-what-it-used-to-be.aspx

[18] "The Importance of Young Firms for Economic Growth." Kaufmann Foundation, September 14, 2015. Accessed May 23, 2016. http://www.kauffman.org/~/media/kauffman_org/resources/2014/entrepreneurship%20policy%20digest/september%202014/entrepreneurship_policy_digest_september2014.pdf

Figure 4.1 Funding Applications



It is important to look at credit demand, sources of credit, approvals, and process-related issues faced by small business owners. Interestingly, about half of survey respondents sought capital over the past two years; however, this number drops to less than one-third for the control group specifically. Survey results further demonstrate that small business owners overwhelmingly rely on banks as the primary source of financing for their businesses. In fact, survey respondents are about four times more likely to apply to financial institutions for capital than any other source. And small business owners are consistently reliant on their existing banking relationships to obtain future credit. As a result, small business owners' ability to borrow is often subject to the constraints facing financial institutions.

SMALL BUSINESS OWNERS ARE CONSISTENTLY RELIANT ON THEIR EXISTING BANKING RELATIONSHIPS TO OBTAIN CAPITAL.

While banks remain the main source for credit, survey respondents indicate that they are not able to secure as much as they request. Across all sources, results show that business owners receive less than half of the amounts they request; respondents apply for a median amount of $100,000 and receive a median amount of $40,500. This includes a number of equity-based and nontraditional sources with quite low success rates. Respondents cite the highest success rate securing capital through credit

Figure 4.2 Capital Requested and Received ($)

	COMBINED			10KSB			CONTROL		
	AMOUNT REQUESTED	AMOUNT RECEIVED	% RECEIVED	AMOUNT REQUESTED	AMOUNT RECEIVED	% RECEIVED	AMOUNT REQUESTED	AMOUNT RECEIVED	% RECEIVED
Credit card	20,000	18,514	93%	20,000	20,000	100%	15,940	14,968	94%
Family/friends	48,949	30,000	61%	9,854	30,000	60%	48,014	34,632	72%
Online lenders	50,000	40,000	80%	50,000	41,650	83%	60,000	—	—
Suppliers	50,000	30,000	60%	50,000	30,724	61%	48,909	29,552	60%
Financial inst.	100,000	65,000	65%	100,000	75,000	75%	63,112	26,866	43%
Venture capitalist	500,000	—	—	500,000	—	—	2,978,829	2,974,595	100%
Angel investor	250,000	22,703	9%	250,000	21,823	9%	109,002	109,002	100%
SBA loan guarantee	150,000	50,000	33%	150,000	50,000	33%	260,417	228,909	88%
Discounting†	34,494	20,000	58%	34,750	20,000	58%	120,392	120,392	100%
Government grant	87,206	20,000	23%	86,954	20,000	23%	98,545	—	—
Crowdfunding	50,000	5,000	10%	50,000	5,000	10%	—	—	—
Some other source	51,431	35,000	68%	71,844	35,000	49%	48,333	48,333	100%

† *Factoring or invoicing discounting*

cards, receiving 93% of the total amounts requested. Yet this lending approach has limits due to credit sizes and high borrowing costs. Small businesses need bank loans as a long-term and ongoing source of support. When applying to banks, survey respondents report receiving 65% of the amounts sought. This shortfall could result in a hindrance on small businesses' operations and growth.

Between the two groups, *10KSB* respondents report higher success rates from financial institutions, receiving a significantly greater portion than they requested compared to the control group (75% to 43% respectively). This difference is notable, as a key tenant of *10,000 Small Businesses* is to address the divide. The program immerses business owners in a finance-heavy curriculum so that they graduate with a completed growth plan and are better positioned for capital. The control group data suggests that business owners who lack this opportunity seem to navigate the capital environment with less success.

While established small businesses are reliant on banks for capital, with regulatory and financial pressures making it hard for owners to secure conventional loans,[19] an increasing number look to other financing options including nonprofit loan funds, government-related sources, private funding, and online sources.[20] Again, here we see a distinction in the *10KSB* respondent pool, which has received a business education. Previous research demonstrates that *10KSB* participants are more likely to apply to community development financial institutions (CDFIs)[21] following program completion, than prior to the program. Indeed, at the start of the program, 7% of *10KSB* participants report having applied for funding from CDFIs, which rises to 11% 18 months after program completion, a 57% increase.[22]

[19] "Why Small Business Lending Isn't What It Used to Be." Federal Reserve Bank of Cleveland, August 14, 2013. Accessed May 20, 2016. https://www.clevelandfed.org/newsroom-and-events/publications/economic -commentary/2013-economic-commentaries/ec-201310-why-small-business-lending-isnt-what-it-used-to-be.aspx

[20] "2015 Small Business Credit Survey. Report on Employer Firms." Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, St. Louis. March 2016. Accessed May 20, 2016. https://www.newyorkfed.org/medialibrary/media/smallbusiness/2015/Report-SBCS-2015.pdf

[21] CDFIs have a mission of serving underserved borrowers who are unable to secure traditional forms of finance.

[22] "Stimulating Small Business Growth: Progress Report on Goldman Sachs *10,000 Small Businesses.*" Developed by Babson College. 2016.

A subset of respondents pursued private sources of capital, and of those, the largest share (approximately one in five) sought loans from family and friends. Capital from family and friends is seen more often with earlier stage businesses, however, it remains a relied-upon source for established businesses as well. Equity investments are relevant for a small subset of businesses, where slightly less than 10% of respondents pursued angel investments, and just under 5% pursued venture capital. While equity investments can provide an important resource for businesses pursuing substantial growth, overall this type of capital is reserved for a very small minority of businesses and business owners.[23]

Nontraditional sources of capital, such as online lending and crowdfunding, are increasingly emerging as financing alternatives for small businesses, with 13% of all survey respondents applying to these sources. There are differences between the two samples in the use of online lenders, with 11% of the *10KSB* sample and 18% of the control group seeking funding from online lenders. The number of business owners in the overall respondent pool using crowdfunding as a source of capital is quite small, but indicates potentially emerging patterns around the growth of different types of crowdfunding platforms.

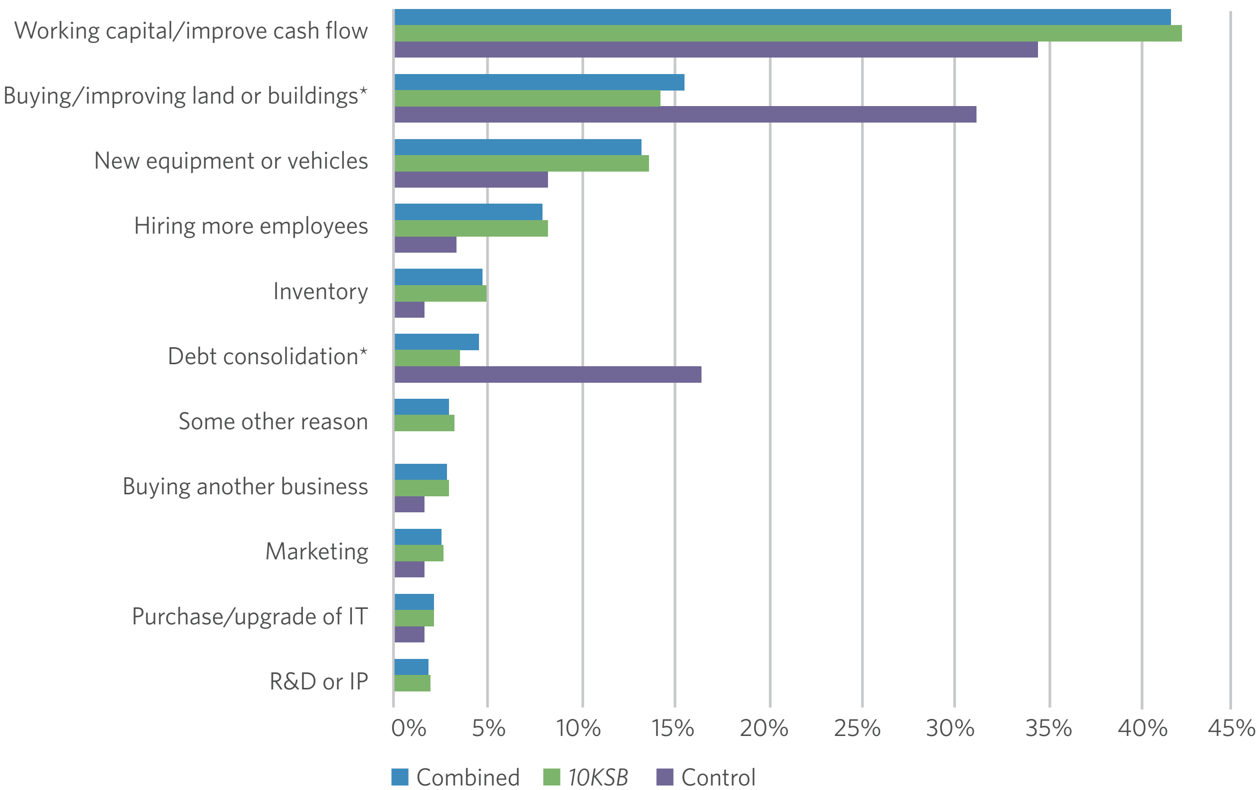
When examining capital application patterns by business size and age, some notable differences emerge. Younger companies (under 12 years) are more likely to leverage family and friends, angels, factoring and online lending than older businesses. This pattern of younger firms seeking more varied and often higher cost non-bank sources of financing underscores the need for affordable, responsible credit and borrower support in navigating different options. This highlights an opportunity to increase access to business management training and capacity-building to help these companies become more qualified for conventional financing.

[23] Sohl. J. 2016. "U.S. Angel Investor Market in 2014 Made a Market Correction in Deal Size." UNH Center for Venture Research. Accessed May 11, 2016. http://www.unh.edu/news/releases/2015/05/em14cvr.cfm

Uses of Capital

What do small businesses use capital for? The top reason for all respondents seeking capital is for working capital and/or improved cash flow (42%).[24] Conversely, the least common reasons for seeking capital include for Research & Development or Intellectual Property and purchasing or upgrading Information Technology, which combined account for 5% of all funding requests. This finding indicates that small business owners are borrowing primarily to keep up with operational needs or to expand, rather than to innovate. Thus, business owners' focus on day-to-day operating expenses may outweigh their ability to invest and accelerate their competitiveness.

Figure 4.3 Most Important Reason for Obtaining Funding



** Statistically significant differences between* 10KSB *and control groups (p < .05).*

[24] "2015 Small Business Credit Survey: Report on Employer Firms." Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, St. Louis. March 2016.

Facilitating Access to Credit for Small Businesses

When asked what would make it easier to access credit or obtain loans, survey respondents share many of the same proposed solutions. The majority of respondents desired more flexible terms from their lenders (58%), and almost half the owners most frequently called for smaller minimum loans (46%) and less paperwork (44%). This finding is not surprising when considered within the current disruptive market environment of small business finance. As heightened scrutiny increases standardization and paperwork, borrowers accordingly face tougher credit criteria and more stringent terms.

Implications

Business ecosystems would benefit from a number of changes to enhance the ability of small business owners to access capital. Such changes involve increasing knowledge and awareness of financing players and sources to ultimately demystify the capital process. First, by educating small businesses on the variety of lending models and financing products available, we can enhance the ability of owners to select the right sources of capital to meet their business needs and stimulate growth. Training around access to capital for the business owner needs to include not only understanding their own financial statements and business model, but also the business terms and products offered by the different funding sources. When a business owner understands the rates, credit criteria and process of a capital source, they are better equipped to assess the fit of any particular capital source with their particular financing needs.

The business owners themselves suggest a reconsideration of terms, loan size, paperwork, and more than one-fourth call for increased transparency in the borrowing process. While financial institutions may not be able to meet all of those suggestions, often due to regulatory or capital constraints, they could help to act as a gateway to other funding sources, for instance, by referring business owners to CDFIs or other alternatives.

Survey results, as well as previous reports on the participants of *10,000 Small Businesses* clearly show that there is a strong diversity of businesses and business owners who are actively seeking to grow, and their approaches to growth are as different as their businesses. While the emergence of new funding sources and models can be considered encouraging, there is simultaneously a growing need for better data and training programs for both small business owners and their financial advisors to be able to understand and use these sources appropriately. Policy discussions must increasingly recognize the value of these nontraditional sources, and the need to balance the degree of regulatory protection necessary to protect all participants. And finally, the regulatory environment must enhance reliable access to capital opportunities for small businesses in order to meaningfully boost growth and job creation.

Regulatory Environment

Nearly 60% of survey respondents identify some level of difficulty understanding and managing government regulations and laws that affect their businesses.

Rules and regulations are put into place by legislative bodies to advance or deter issues that impact the general public.[25] Rules and regulations can include requirements around not only accessing capital, but also such things as permitting, accessing utilities and technology, paying taxes, hiring and managing workforce, entering new markets, enforcing contracts, and resolving insolvency.

As small businesses comprise more than 99% of all employer businesses in the U.S.,[26] a regulatory environment that supports small business growth and job creation is crucial. It is integral to understand the extent to which small businesses see rules and regulations as either opportunities or challenges to growth, and to equip them with the right mix of resources and knowledge to thrive and create jobs.

While there are rules and regulations that impact all businesses, many apply differently depending on firm size. For example, only businesses with 50 or more employees are required to provide health care through the Affordable Care Act (ACA). This employment trigger is particularly interesting in that fewer than 5% of all U.S. businesses have more than 49 employees. Thus approximately 95% of U.S. businesses are exempt from complying with these requirements. As a result, nearly half of private sector jobs[27] in the U.S. employed by small businesses are not covered by this regulation.

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[25] Gatewood, E., Greene, P. & Thulin, P. 2015. "Sweden and the United States: Differing Entrepreneurial Conditions Require Different Policies." Jubilee Publication of the Swedish Entrepreneurship Forum.

[26] SBA Office of Advocacy. Frequently Asked Questions. Accessed April 4, 2016. https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

[27] SBA Office of Advocacy. Frequently Asked Questions. Accessed April 4, 2016. https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

These rules and regulations nonetheless impact small businesses in both direct and indirect ways. Health care provides an example of each. While businesses with fewer than 50 employees are exempt from provision, tax credits and advisory programs provide incentives directly targeted for businesses under the 50-employee threshold to do just that. Indirectly, while a business might be under the 50-employee trigger mandating compliance, ACA requirements contribute to shaping the workforce environment by setting expectations for relationships between employers and employees. The informal perception of a "good" job might be socially identified as one with a set salary and benefits level, including health care, competitive wages, and work-family considerations. This report explores how small business owners understand and manage regulations, including the time they spend on compliance.

FOR THE VAST MAJORITY OF ALL RESPONDENTS, THE OWNER IS PRIMARILY RESPONSIBLE FOR DEALING WITH REGULATORY ISSUES.

Understanding and Managing Regulations

At the highest level, nearly 60% of survey respondents identify some level of difficulty understanding and managing government regulations and laws that affect their businesses. Less than one fifth of respondents cite that it is easy to understand and manage government regulations and laws, and just under a quarter are neutral.

Given the range of difficulty in understanding regulations, how much time do businesses spend dealing with regulatory requirements? On average, survey respondents spend approximately 4 hours per week dealing with government regulations and tax compliance. While a business owner's work day may often extend more than 8 hours, an average expenditure of 4 hours per week computes to just over 200 hours per year spent managing government regulations. Industry does make a difference, however, with the most notable example being that one in five business owners in the Transportation and Warehousing industry reports that their business spends 16 or more hours per week on regulatory compliance.

Most respondents manage this responsibility in-house, which puts the time burden directly on the business. For the vast majority of all respondents, the owner is primarily responsible for dealing with regulatory issues, with the office manager being a distant second at just over 10%, and less than 10% utilizing outside resources. For businesses with 50 or more employees (approximately 6% of the respondent pool), the owner is still the most likely to hold this responsibility, and the next more frequent person to be responsible shifts from the office manager to an external consultant.

How do small business owners learn about regulations? Of all the respondents, nearly two-thirds rely on a professional advisor (e.g. attorney or accountant), with just less than half relying on trade associations, and just over a third searching the internet. This is followed by about 15% of respondents using their local Chambers of Commerce and SBA program offices. Few respondents report using any other resources to learn about new regulations that affect their businesses.

Regulatory Impact on Business Growth

The regulatory environment plays an integral role in enabling an entrepreneurial ecosystem that fosters innovation and economic growth. To inform how small businesses assess the impact of the regulatory environment on business growth, survey respondents provided feedback across a range of areas.

Tax Code

The tax code is the regulatory area about which survey respondents acknowledge the highest concern for the impact on their businesses. However, most notable is the complexity of the tax code, as 14% of survey respondents report that they are not sufficiently familiar with this area, a number three times higher than any of the other regulatory categories included in the survey.

Minimum Wage

Minimum wage is another hot topic for businesses. Of the survey respondents, approximately 20% pay minimum wage to any of their workers.

When examining by industry and across all respondents, the highest uses of minimum wage workers is consistent in two particular industry sectors: Accommodations and Food Service (60%) and Retail Trade (28%). The business models in these two industries rely on the use of lower wage workers: the direct provision of the goods are done by individual employees, and often the skillset required for providing those goods is either perceived as minimal and/or able to be provided by the company at a reasonably low cost.

OF THE SURVEY RESPONDENTS, APPROXIMATELY 20% PAY MINIMUM WAGE TO ANY OF THEIR WORKERS.

Minimum Wages Across the U.S.

Minimum wage laws show significant geographic variability. By early 2016, 29 states and the District of Columbia had higher minimum wage requirements than the federal level of $7.25, which has been in place since mid-2009. At the state/territory/district level, minimum wages range from a high in Washington, D.C. of $10.50 followed by California and Massachusetts ($10), to five states with no minimum wage (Alabama, Louisiana, Mississippi, South Carolina, and Tennessee). Many states have planned increases in place, with 11 states indexed to rise with the cost of living. Sub-state localities also play a critical role, with 23 having minimum wages above their state level in 2016. In 2014 both San Francisco and Seattle passed a $15 minimum wage, to be phased-in by 2018 (San Francisco) and 2021 (Seattle). In 2015 several other California cities passed regulations mandating a $15 minimum wage to be reached over the next two to five years. Currently, the highest minimum wage locality is SeaTac, WA, the city surrounding the Seattle-Tacoma International airport, which has a minimum wage of $15.24 that is tied to inflation.[28]

[28] "State Minimum Wages| 2016 Minimum Wage by State." NCSL (National Conference of State Legislatures). Accessed April 20, 2016. http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx and "Raise the Minimum Wage. Minimum Wage Laws and Proposals for Major U.S. Cities." NELP (National Employment Law Project). Accessed April 20, 2016. http://www.raisetheminimumwage.com/pages/minimum-wage-laws-and-proposals-for-major-u.s.-cities

Figure 5.1 Hire Minimum Wage Workers by Industry

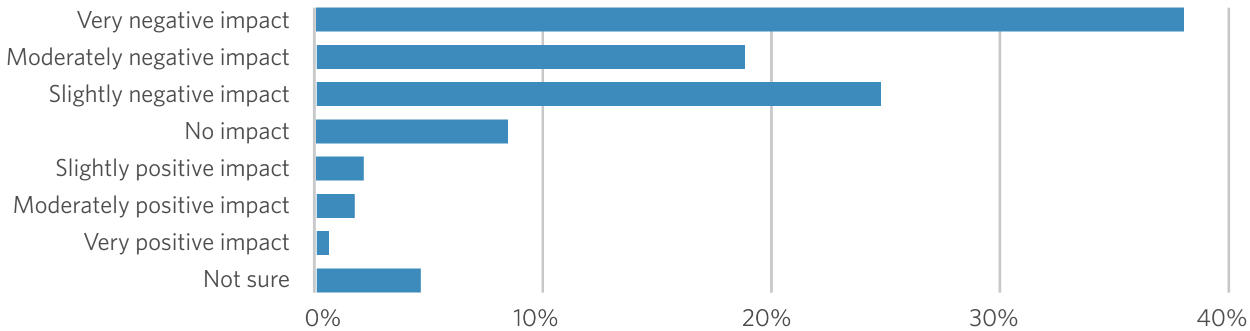
INDUSTRY	COMBINED	*10KSB*	CONTROL
Accommodation and food services	60.2%	58.6%	68.8%
Arts, entertainment and recreation	22.0%	24.3%	—
Construction*	4.0%	4.4%	—
Educational services	18.6%	15.4%	42.9%
Finance and insurance	8.7%	12.1%	—
Health care and social assistance	20.5%	17.6%	30.0%
Information	16.7%	13.8%	100.0%
Manufacturing*	11.2%	12.1%	5.0%
Professional, scientific and technical services*	6.4%	7.3%	—
Real estate and rental and leasing	5.9%	7.7%	—
Retail trade	28.0%	27.8%	28.6%
Transportation and warehousing	25.6%	24.3%	50.0%
Wholesale trade	17.1%	18.4%	—
Other services	15.6%	17.6%	2.7%

** Statistically significant differences between* 10KSB *and control groups (p < .05)*

The perception that small business owners feel they cannot afford increased labor costs bears analysis for two reasons. First, minimum wages range from $7.25 to $15.24 across the country, so some small business owners already operate in relatively high minimum wage locales. And second, while recognizing the industry differentials, the number of employees affected is relatively small, though with varying impacts on different populations of workers and types of businesses. Of the approximately 75 million workers in the U.S. who were at least 16 years old and paid hourly (as distinct from salaried employees), only 4.7% were paid wages at or below the federal minimum wage of $7.25.[29]

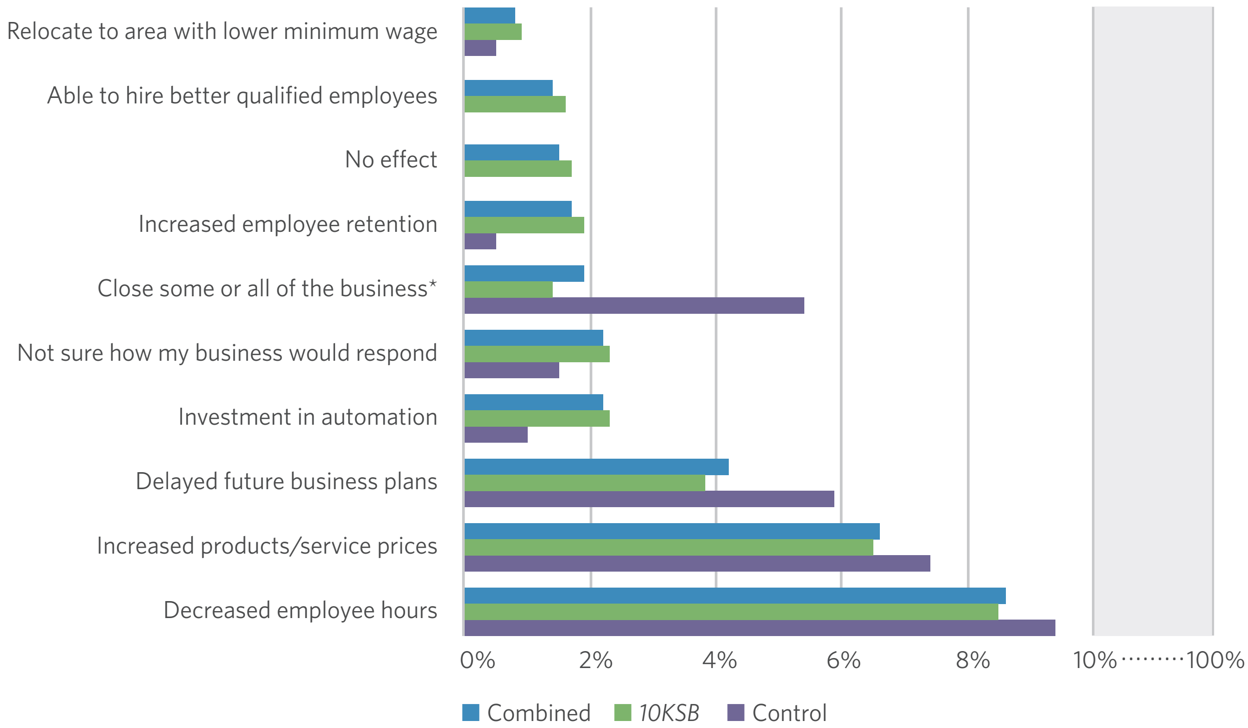
When respondents who provide minimum wage jobs were asked about the potential impact of an increased minimum wage on their businesses, owners expressed mixed and somewhat contradictory reactions to proposed changes *(see Figure 5.2)*.

Figure 5.2 Impact of Increasing the Minimum Wage on Business *(Federal, State, or City)*



[29] U.S. Department of Labor, Bureau of Labor Statistics (BLS). These data on minimum wage earners are derived from the Current Population Survey (CPS), a monthly nationwide survey of households. Data used are 2012 annual averages. Accessed March 15, 2016. http://www.bls.gov/cps/minwage2012.htm

Figure 5.3 Effect of Increased Minimum Wage



** Statistically significant differences between* 10KSB *and control groups (p < .05).*

While most of these business owners report that in general they expected increasing minimum wage to have a negative impact on their businesses (with 58% of the control group and 36% of the *10KSB* group expecting a 'very' negative impact), resoundingly most owners do not report expecting negative impacts on their businesses across a range of specific activities. Within the combined sample, less than 10% report they would increase prices of their product or service (thereby passing the cost on to the customer) or that they would decrease employee hours (passing the cost on to the employee). Importantly, less than 5% said they would delay future business plans. The question then becomes, if labor costs go up, will that unintentionally impact the small business owners' ability to grow? And how do small businesses adjust accordingly?

While minimum wage affects the hiring of front line workers, it also influences the salary structures of organizations as a whole. These considerations should be taken into account when small businesses owners evaluate the impact on their organizations.

Health Care

Survey respondents' views on the impact of health care regulations also proved informative. Although the vast majority of respondents, over 90%, are not legally required to provide health care due to the 50-employee threshold, results show that more than half of respondents provide health insurance to at least some of their employees. Previous research on *10,000 Small Businesses* program alumni demonstrates that businesses providing health care benefits to at least some of their employees grow at consistent rates with national program averages. Survey results here further indicate that the business owner's perception of a regulatory impact on their business's profitability or employment may not translate to their business practices. While health care regulations apply to only 6% of survey respondents, 40% report that such regulations have had a negative impact on their business's profitability. As businesses consider providing health care, there is a direct association with its impact on profitability, which could inform how they fashion benefits for their employees.

Implications

Most rules and regulations in the above categories were initiated to protect the public good, be it customers or employees, and contribute to the regulatory environment within which small businesses operate. As producers and providers of products, services, and employment, small business owners are generally impacted by rules and regulations, even when legally excused from compliance due to the size of their businesses.

A potential tension thus arises between legislative actions motivated by the intent to protect their businesses, with any policy effort to improve the economic aspects of the public good. Anecdotally business owners describe their individual time as their most important business resource, and learning about, understanding, and managing regulations and compliance issues takes a substantial amount of time—an average of 200 hours per year.

The stacking of regulations from federal and sub-federal levels and the wide range of types of regulations can extenuate the challenge for small businesses. Recognizing the true nature of the U.S. economy (and the reality that 99% of employer firms are small businesses representing almost half of the American workforce) can serve as a starting point for a consideration of regulatory impact rather than the end point.

Workforce

Employees are the backbone of companies and are vital to the types of business growth that contribute to economic development.

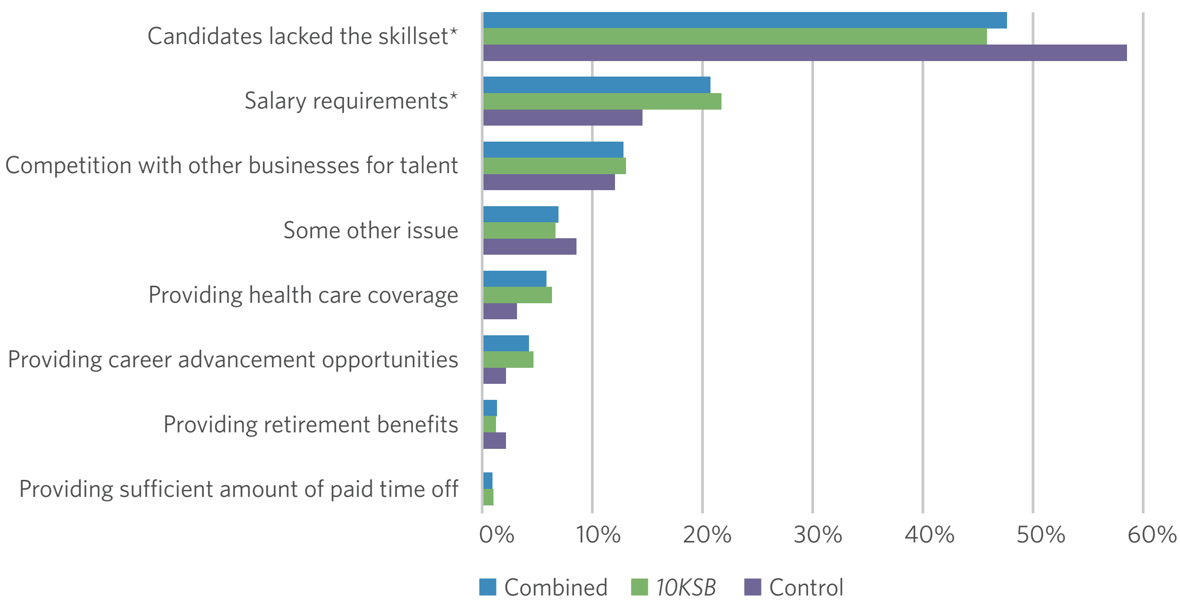
Additionally, we know from the survey that almost half of respondents report that hiring and keeping good employees is one of their top two growth challenges (48% *10KSB* and 39% control).

Given this, what are small business owners' perspectives and experiences around hiring and retaining employees? Overwhelmingly, respondents indicate that hiring is hard because candidates lack the skillset that their businesses need.

When asked how easy or difficult it was to hire in the last two years, the majority of survey respondents consistently state that they find it difficult to hire qualified employees (72%). There is, however, industry variation: owners of Transportation and Warehousing (87%) and Construction (82%) companies cite the greatest difficulty hiring qualified employees for their businesses, while Arts, Entertainment, and Recreation (39%) and Finance and Insurance (22%) cite the least difficulty.

ALMOST HALF OF RESPONDENTS REPORT THAT HIRING AND KEEPING GOOD EMPLOYEES IS ONE OF THEIR TOP TWO GROWTH CHALLENGES.

Figure 6.1 Hiring Challenges



** Statistically significant differences between* 10KSB *and control groups (p < .05).*

What makes hiring so hard? The conventional wisdom is that hiring for small businesses is hard due to difficulties in three areas: inability to pay competitive wages, provide benefits, and support a career ladder for employees. However, survey respondents across all industries and businesses of all sizes did not cite these reasons as the top challenge. Instead, their answers were notably consistent: potential candidates lack the skillset that their businesses need.

Indeed, finding employees with the needed skillsets is the top challenge to hiring (58% control and 46% *10KSB*). Still noteworthy is that 14% of the control group and 22% of the *10KSB* sample identify 'salary requirements' as their primary challenge to hiring, reporting 'competition with other businesses for talent.' Cost of any resource is always an important consideration for a small business, and competition for those resources impacts cost. Together these challenges raise the question of how salaries are determined and supported.

WHAT MAKES HIRING SO HARD? POTENTIAL CANDIDATES LACK THE SKILLSET THEIR BUSINESSES NEED.

What is not considered a challenge is also revealing. Very few respondents report that providing health care coverage (6%), retirement benefits (1%), or a sufficient amount of paid time off (1%) is the top challenge to hiring. Each of these is often part of the popular conversation about work-family policies, yet business owners do not emphasize these topics as a primary challenge.

These findings suggest that small business owners' experiences and challenges around hiring involve not only the demand side, but also the supply side—the need for training that provides the right skillsets for the right roles. How might this training be provided?

Training

While some types and levels of skillset may be necessary for job entry, others may be developed within the business over time. Training is thus critical both to expand employees' skillsets to position them for career growth and to meet evolving business needs. Given the reported difficulty of small business owners in hiring employees with appropriate skillsets, it is important to determine whether and how small business owners provide training to their employees and what are the reasons for providing or not providing it. Previous research shows that many of the growth-oriented companies of *10,000 Small Businesses* consistently report strong commitment to upgrading the skills and knowledge of their employees. Indeed, over the program's six-year duration, those businesses that offer training to 'all' or 'most' of their employees more often report a higher rate of revenue growth than program alumni generally.[30] Therefore, training does not necessarily negatively impact a business's bottom line.

Encouragingly, 88% of survey respondents offer training to all or most of their employees through a variety of training options. Training can range from one-on-one training at a worksite to sending individuals/groups to offsite classes, to online coursework, particularly recognizing that various types of training require distinct business resources. Internal onsite training requires in-house expertise (both in the skillset needed and the ability to train) and the opportunity costs of the time for the individual providing the training. External/offsite training may be open enrollment or custom created to meet a more specific set of training needs. Increasingly on-line courses provide options for courses with varying amounts of customization and availability on or off site. The cost then becomes a function of the type of program.

THE MOST COMMON TRAINING APPROACH IS ON-SITE, ONE-ON-ONE TRAINING TO ALL EMPLOYEES.

Of the survey respondents that provide training, the most common training approach is on-site, one-on-one training to all employees (60% *10KSB* and 67% control group). Group training on site requires more of an "instructor" approach, which can be a skillset in itself. Nonetheless, over a third of both groups provide group onsite training to all, most, or some of their employees.

More often, offsite training for individuals is more often provided to just some employees and is used more often by the *10KSB* sample (37% as compared to 25% control group). Group offsite training is the least-used means, and it is used twice as often by the business owners in the *10KSB* sample as by the control group (26% and 13% respectively). Online training courses are used by over half of each of the groups for at least some part of their workforce (63% *10KSB* and 52% control).

If the provision of training is so important in the development of necessary skillsets, why don't all businesses provide training for their employees? Of those who do not provide training, cost is the top reason reported for not providing training, specifically a 'lack of funding for outside courses' (52%). An additional 38% of respondents report that they were not aware of the availability of outside training courses. Owners also report concern about the amount of time it would take a manager(s) to organize the training (25%), and for either on or off site, concern about time for the employees to attend (29%). In short, opportunity costs seem to outweigh the perceived benefits.

The cost, availability, and utility of training then become the issue. Historically, common resources available for training are often not well-aligned with the needs of entrepreneurial small businesses. Although many workforce training programs are available through government agencies, NGOs, and educational institutions, the majority were designed to meet traditional labor requirements, not to

[30] "Stimulating Small Business Growth: Progress Report on Goldman Sachs *10,000 Small Businesses*." Developed by Babson College. 2016.

build entrepreneurial capabilities. Workforce policies and programs in the United States remain highly aligned with a training model suited for placement in large companies, an approach dating back to the creation of the U.S. Department of Labor in 1913, New Deal programs launched between 1933 and 1937, and particularly to the Wagner-Peyser Act of 1933 to assist in the employment needs of wage earners. Most government "jobs" programs are focused on creating employees rather than employers. Although workforce programs have evolved since their introduction, they remain largely based on the provision of remedial education, vocational training, subsidizing on-the-job training to provide work experience, the development of basic life-skills training, and assistance in job searches.[31] Furthermore, because of the need of the programs to scale, most workforce programs focus on training employees for larger companies, including an increased focus on re-training for those transitioning to emerging types of jobs.

In spite of the pervasive legacy that still governs many workforce development programs, there are emergent trends that show promise in addressing the needs of entrepreneurial small businesses. There has been increasing emphasis on distressed urban neighborhoods and their inclusion in workforce program design and implementation, offering an opportunity for business owners and other ecosystem stakeholders to become involved in local training efforts.[32] More specifically, innovative initiatives by local governments and community colleges offer increasing examples of effective workforce development models. In the government arena, under Mayor Michael Bloomberg, New York City combined their workforce development programs with their Small Business Services department to develop a "create the jobs and fill them" model.[33] On the other side of the country in Southern California, an alumna of *10,000 Small Businesses* partnered with a local community college to develop a training program that would provide potential employees with the skillset she needed, while also providing training for potential employees for others as well.

This report suggests three implications to enhance the capacity of business environments to support the skillset needs for job creation. First, this is an area ripe for public-private partnerships with all types of stakeholders. The resources of the workforce development programs of local community colleges can be more tightly aligned with the needs of the small businesses. This can range from the use of intern programs to provide students with both general and specific skillsets to courses developed to focus on shared needs of the local business community. Aggregation of training might also be considered in another way: small businesses collaborating with each other to create training co-ops. While issues around competitive intelligence—and even employee poaching—would need to be addressed, sharing the resources necessary for training on specific topics could be a competitive advantage for each participating business. And finally, reviewing and revamping the philosophy and practice of existing workforce development programs through a lens that clearly recognizes the hiring potential of small businesses would potentially free up other types of public-private resources to support business growth.

While creating an environment in which the development of employee skillsets is feasible, it is necessary to address another often-reported challenge of providing benefits.

[31] "Workforce Development Overview. Employment & Career Development Division Training Academy June 2012". Employment Security Department, Washington State. Accessed April 23, 2016. http://www.wa.gov/esd/training/elearning/business/01-01.pdf

[32] "Expanding Opportunities in America's Urban Areas." Center for American Progress. Accessed April 16, 2016. https://www.americanprogress.org/issues/poverty/report/ 2015/03/23/109460/expanding-opportunities-in-americas-urban-areas/

[33] "Reporting on What Works for Cities. Building an Inclusive Tech Economy: Internship Programs that Connect Inner City Workers to Jobs in the Technology Sector." Initiative for a Competitive Inner City (ICIC) 2016. Accessed May 20, 2016. http://icic.org/wp-content/uploads/2016/04/ICIC_RoWW_Tech_Internships.pdf?d6eba3

Health Care

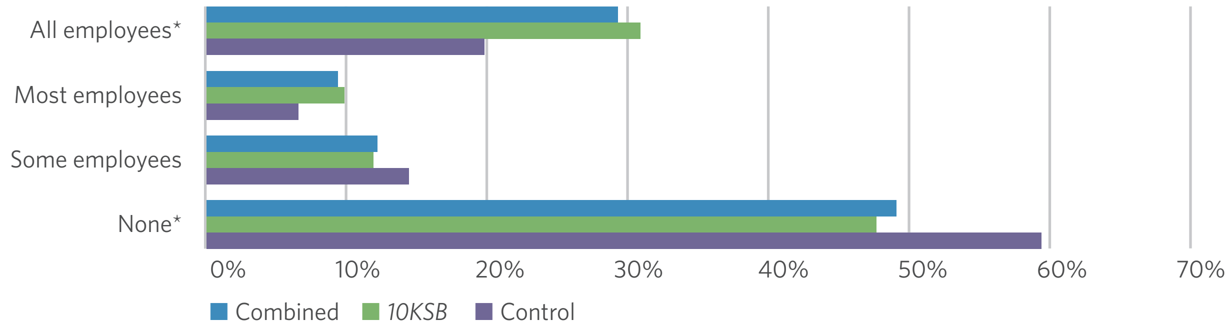
The role of employers in providing access to health care remains a topic of national focus. As stated earlier in the report, the Affordable Care Act (ACA) mandates that businesses with more than 50 employees are required to comply with current regulations to provide health care coverage to some percentage of their workforce, a legal requirement that impacts approximately 5% of all U.S. businesses.

Survey respondents indicate that small businesses are willing to, and, to some extent do, provide health care. In fact, according to a study by the National Federation of Independent Business (NFIB), 35% of businesses with fewer than 50 employees do offer health insurance to any of their active employees.[34] Of the *10KSB* businesses, 93% have fewer than 50 employees, and of those, nearly one-third offer health insurance to all employees. By comparison, 97% of the control group have fewer than 50 employees, and of those, one-fifth provide health coverage to all their employees. Overall, about half of the respondent pool does not offer health insurance.

SURVEY RESPONDENTS INDICATE THAT SMALL BUSINESSES ARE WILLING TO, AND, TO SOME EXTENT DO, PROVIDE HEALTH CARE.

There is significant difference in health care provision by industry, with higher-skilled sector businesses more likely to offer benefits to at least some of their employees, including Information (79%), and Professional Services (77%). Companies in both Accommodation and Food Services (21%) and Retail Trade sectors (35%) report offering health insurance the least often. (Note that the latter two are also the industry sectors with the highest use of minimum wage workers). Not surprisingly, company revenue size also impacts health care benefits with larger businesses ($1-4 million) significantly more likely to offer insurance to workers (some, most, or all, 69%) than smaller companies ($150,000-499,999) (29%).

Figure 6.2 Offering Health Insurance



** Statistically significant differences between* 10KSB *and control groups (p < .05).*

[34] "Small Business and the Cost of Health Insurance." National Federation of Independent Business. November 3, 2014. Accessed March 27, 2016. http://www.nfib.com/content/issues/healthcare/small-business-and-the-cost-of-health-insurance-49514

Figure 6.3 Health Insurance Coverage

Most important reason for offering health insurance	COMBINED	*10KSB*	CONTROL
It's the right thing to do/good business	49.1%	48.1%	49.2%
Role of benefits in retaining existing employees	27.7%	27.0%	33.3%
Role of benefits in attracting new employees	12.2%	13.0%	6.2%
Compliance with federal requirements	8.4%	8.0%	11.1%
Some other reason	1.5%	1.5%	1.2%
To be able to provide it to the owners	0.5%	0.6%	—
Tax benefits to your company	0.1%	0.2%	
Most important reason for not offering health insurance			
Cost of plan premiums to employer*	64.7%	68.0%	48.8%
Employees do not want or need insurance*	16.5%	13.6%	30.6%
Not required/company too small	6.2%	6.3%	5.8%
Cost of plan premiums to employees	5.4%	5.1%	6.6%
Complexity of the plan offerings	2.7%	2.7%	2.5%
Some other reason	2.0%	1.9%	2.5%
Administrative time required by business	1.7%	1.4%	3.3%

** Statistically significant differences between* 10KSB *and control groups (p < .05).*

Why do small businesses provide health care, if it's not a legal requirement? Most importantly, there is a social component to this issue as almost half of all the survey respondents (49%) report offering health insurance to their employees because it is 'the right thing to do.'

Some small business owners consider the provision of health care to be a competitive advantage in hiring (13% *10KSB* and 6% control group) and retaining employees (27% *10KSB* and 33% control group).

Often, tax and compliance are perceived to be drivers of providing such benefits, but less than 1% of all the survey respondents cite tax benefits. And, as noted above, since most of these small businesses are below the 50-employee trigger level, regulatory compliance is a concern for only a small segment, though 8% of the respondents do attribute compliance as their driving factor for offering health insurance.

ALMOST HALF OF ALL SURVEY RESPONDENTS REPORT OFFERING HEALTH INSURANCE TO THEIR EMPLOYEES BECAUSE IT IS 'THE RIGHT THING TO DO.'

Taking a closer look at the other half of respondents who do not offer health insurance, significant differences emerge between the *10KSB* sample and the control group, with *10KSB* businesses 12% more likely to offer health insurance. Why don't businesses provide health insurance? Overwhelmingly the top reason is the 'cost of plan premiums to employer' (68% *10KSB* and 49% control group), followed by the 'employees not wanting or needing insurance,' with the control group twice as likely to report this reason as the *10KSB* sample.

Evidence supports that businesses that do provide health care grow. Specifically, data from the third edition of the annual *Stimulating Small Business Growth* progress report shows that providing health insurance to employees does not negatively impact growth. Instead, *10,000 Small Businesses* graduates who do provide health insurance tend to grow at least as much as their counterparts who do not offer insurance.[35] Nonetheless, health care costs are a challenge for small businesses. Survey respondents consistently report 'cost-related' issues as the top reason for not providing health insurance. These cost barriers could present disadvantages in attracting skilled and experienced employees from existing positions providing benefits.

[35] "Stimulating Small Business Growth: Progress Report on Goldman Sachs *10,000 Small Businesses*." Developed by Babson College. 2016.

Implications

The most significant barrier reported by existing companies to hiring the employees necessary to grow their companies is the skillset possessed by prospective employees. This skillset gap is especially critical for small, growing firms who, unlike large established firms, do not have a large existing labor force that can adapt to changing skill requirements. From a policy perspective, this calls for public-private sector partnerships that can address business owner and employee skills in a manner that both increases the potential growth of small businesses and provides a source of qualified labor to support that growth.

While small business owners consider finding appropriate skilled labor a challenge to their growth, they are also deeply involved in training their existing staff through a variety of approaches, from in-house one-on-one training to external group classes. No business ecosystem can be healthy and sustainable without a deliberate means of addressing workforce development in a way that meets the needs of all sizes of businesses. This is another area ripe for public-private partnerships with all types of stakeholders.

Almost all of the business owners in this survey are under the regulatory trigger of 50 employees. While more than half of the business owners provide health insurance voluntarily, just under half do not. Of those who do not, many employers indicate that they do not provide employee health insurance because of the dollar cost. While it would seem that this would be a deterrent to hiring, only a few respondents report that providing health care coverage is a challenge to hiring. This could be because so few are subject to the health care requirements. What is needed is additional support to help business owners navigate coverage decisions and cost-related issues.

NO BUSINESS ECOSYSTEM CAN BE HEALTHY AND SUSTAINABLE WITHOUT A DELIBERATE MEANS OF ADDRESSING WORKFORCE DEVELOPMENT IN A WAY THAT MEETS THE NEEDS OF ALL SIZES OF BUSINESSES.

Technology

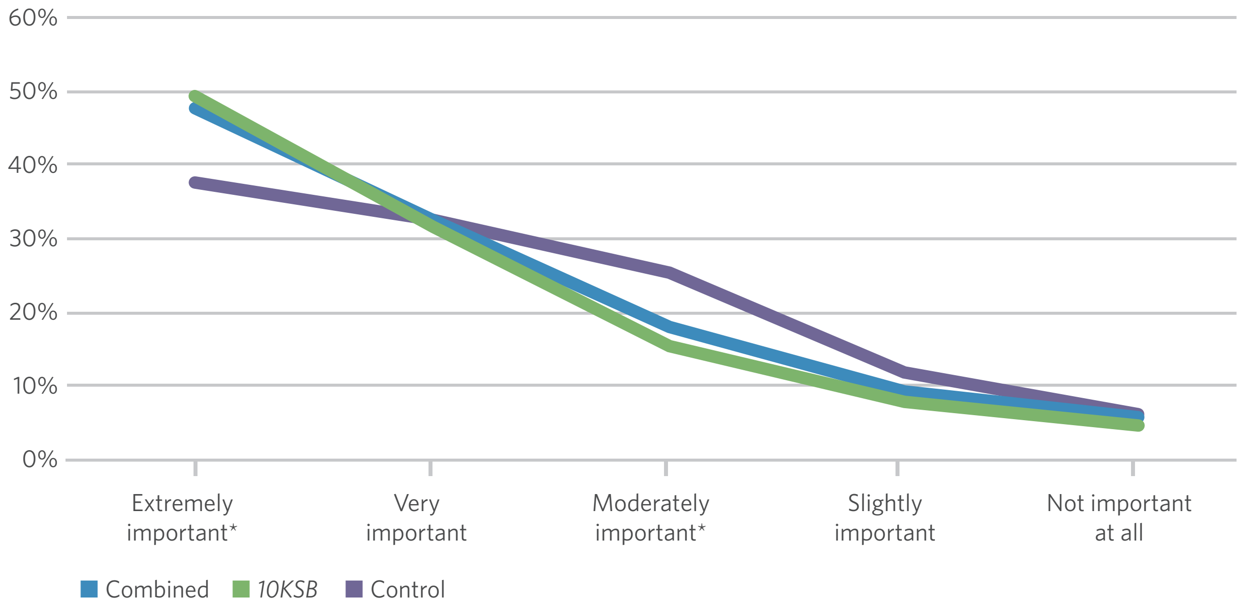
From the cloud to big data, today's entrepreneurs operate in a rapidly-changing marketplace.

For small businesses, this reality offers an enormous opportunity to gain competitive advantage, while at the same time opens doors to new sets of risks and challenges. Yet in many economic development forums, technology has become largely synonymous with innovation and entrepreneurship, resulting in the targeting of resources and energy on technology companies versus technology itself, even though only approximately 5% of all U.S. businesses are technology businesses.[36] As there can be a tendency in economic development discussions to overemphasize the focus on technology-based start-ups as engines of job creation, it is important to recognize the integral role that technology plays in most small businesses.

The majority of survey respondents (78%) consider technology, including keeping up with new technology, to be 'extremely' or 'very' important to the growth of their businesses. In fact, less than 10% of all respondents cite technology as only 'slightly' or 'not important' to the growth of their businesses. Notably, nearly half of *10KSB* respondents considered technology to be 'extremely important' to the growth of their businesses, which was 13% higher than the control group. Survey findings indicate that the

[36] For source of definition of technology businesses, see Austin Technology Council Tech Talent Study: "An Assessment of the Workforce Pipeline in Austin's Technology Sector," developed by Civic Analytics for ATC and the city of Austin as part of the Austin Technology Partnership. Accessed May 16, 2016. http://austintechnologycouncil.org/wp-content/uploads/2015/03/Workforce-Gap-Survey-V21.pdf

Figure 7.1 Importance of Technology



** Statistically significant differences between* 10KSB *and control groups (p < .05).*

role of technology is one area of potential challenge to business growth that is at least partially dependent on the characteristics of the business owner. The stereotype is that older generations are typically slower to adopt new technologies and thus can benefit from targeted training or reverse mentoring (younger users teaching older users). Actually, when it comes to the business owner's age, the importance of staying technologically current is seen as nearly universal across all generations of business owners. While in the *10KSB* sample, the oldest business owners or 'traditionalists' (born 1900-1945) have a lower regard than other generations for the importance of technology (27%), the differences are small, and all other generations are more likely to report that keeping up with technology is 'extremely important' to the growth of their businesses, including Baby Boomers (born 1946-1964) (46%), Gen X (born 1965-1979) (50%), and Millennials (born 1980-2000) (55%). The control group is similar, with the exception that Gen Xers report that keeping up with technology is 'moderately important,' (32%) though the differences, again, are quite small.

Although technology and keeping up with technology are universally valued, significant barriers constrain its use. Across all respondents, cost-related issues account for nearly half (47%) of the most significant technology challenges currently facing these companies including, 'cost of new technology' (23%), 'cost of necessary upgrades or maintenance' (16%), and 'cost of training, including employee time' (8%). While *10KSB* respondents cite the 'cost of new technology' as their primary concern, control group respondents cite the 'cost of necessary upgrades.' This suggests that growth-oriented businesses may be interested in working with the new, while those businesses not defined by growth may be more focused on making what they have work better.

The next most significant technology issues respondents report facing is 'integrating new technology with existing technology' (18%) and 'time for me or other decision maker(s) to learn what is available' (17%). A business environment that provides opportunities to learn and share about innovation and technology would be a solid means of supporting growth-oriented businesses. Indeed, business owners need to have a more transparent way of understanding the range of affordable technology tools in the marketplace, how to implement, maintain, and evaluate them, and how to integrate them into their systems and train up their employees. New technologies regularly arise and quickly become an integral part of a business tool set.

Cybersecurity

One of the most obvious differences between large and small businesses is the resources available to manage day-to-day operations, a disparity that is magnified when considering emergency preparedness and management. While the increased use of technology provides significant benefits, it also amplifies various risks, notably those related to cybercrime, including data theft and business disruption. This is especially relevant as small businesses are a growing target of cyber attacks.[37]

Fortunately, a percentage of small businesses are aware of and prepared for this threat: nearly a quarter the survey respondents feel 'extremely prepared' or 'very prepared,' while an additional third feel 'moderately prepared' for a cyber attack if they, their suppliers, or their vendors are affected. The degree of preparedness, however, does vary by size of the business (measured by revenues). Larger businesses ($1-4 million) are more confident and less often report being 'not at all prepared' (15% in the *10KSB* sample) compared to 23% in the smallest size category ($150,000-499,999). Nonetheless, there is a need to educate the remaining 43% of all survey respondents who believe that their company is 'slightly or not at all prepared.'

WHILE THE INCREASED USE OF TECHNOLOGY PROVIDES SIGNIFICANT BENEFITS, IT ALSO AMPLIFIES VARIOUS RISKS—NOTABLY THOSE RELATED TO CYBER CRIME, INCLUDING DATA THEFT AND BUSINESS DISRUPTION.

Nearly one out of five of all respondents have been the victim of a cyber attack, leading to potential costly business disruption, especially since small businesses are increasingly targeted. The 2015 National Small Business Association (NSBA) year-end report finds that more than 40% of their sample indicates that they have been victims of a cyber attack with an average cost of over $7,100,[38] with attacks including hacked computers (34%), stolen credit cards (31%), hacked websites (17%), hacked networks (13%), company information hacked from a third-party (7%), and cloud data hacked (2%).

New and increasing concerns about cyber risks underscore the need to better equip small business owners with the knowledge and resources to protect their assets. From a business environment perspective, two actions have been suggested to prepare small businesses: 1) increased information readily available about preparation tactics and practices, and 2) increased governmental standards regarding cybersecurity standards.

[37] Schrader, C. "Top 2016 Cyber Threats for Small Businesses." National Cybersecurity Institute at Excelsior College. January 11, 2016. Accessed February 27, 2016. http://www.nationalcybersecurityinstitute.org/small-business/top-2016-cyber-threats-for-small-businesses/

[38] "Year End Economic Report." National Small Business Association. 2015. Accessed February 25, 2016. http://www.nsba.biz/wp-content/uploads/2016/02/Year-End-Economic-Report-2015.pdf

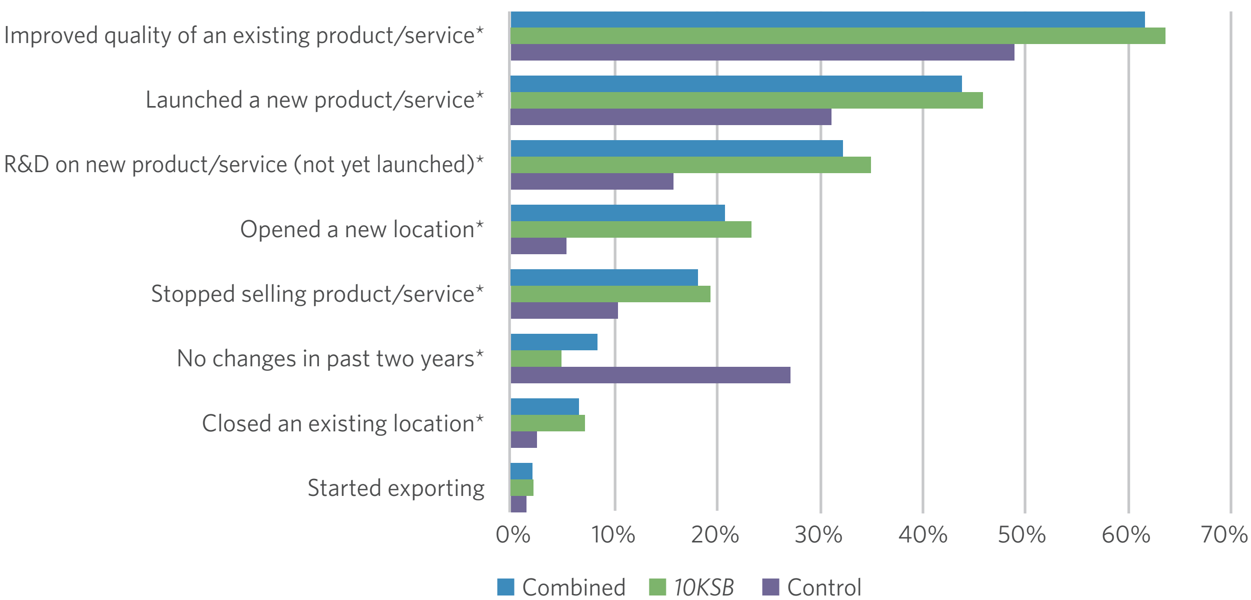
Innovation

Technology is a tool-belt; innovation is the application of those tools to develop new ways of doing things. One path in the quest for business growth is pursuing new opportunities, applying tools strategically to these opportunities, and protecting the subsequent value created. The *10KSB* respondents employ a variety of strategies to pursue their business growth aspirations: 35% are engaged in research and development in a new product or service that is not yet launched, 46% are launching a new product or service, and 62% are improving the quality of an existing product or service. These numbers are significantly higher than those in the control group (16%, 31% and 49% respectively). The two groups differ most notably by whether or not the business owners made any changes to their businesses, with 27% of the control group reporting no changes in the past two years, more than five times lower than the level reported by *10KSB* respondents (5%).

What do business owners believe would help them innovate? Knowledge precedes capital, and both were the top two resources cited. Of all the respondents, the top need to enable innovation is consistently 'a better understanding of the resources available,' though valued differently by the *10KSB* respondents than the control group (28% versus 44% respectively). The second preference was 'specialized access to capital programs,' and this was cited almost twice as often by the *10KSB* respondents than the control group (24% and 12% respectively). Survey respondents also shared a desire for 'networks to support the exchange of ideas' to help their businesses innovate (20%).

While some programs to support innovation may exist, many business owners feel they do not know what is available that might be of use. Somewhat surprisingly, given that they have been around longer, more mature businesses (12 or more years old) cite they'd like a better understanding

Figure 7.2 Changes in Business in Past 2 Years (%)



** Statistically significant differences between* 10KSB *and control groups (p < .05).*

of what resources exist (31%) versus 26% for younger businesses (those under 12 years old). Mature firms also more frequently report an interest in training programs (21% versus 14% for younger businesses), while younger businesses more often report interest in specialized access to capital programs (38%).

Innovation is critical for all types of businesses, helping to create new opportunities and to drive strategic change. However while innovation is integral to small business growth, in the U.S. business landscape, too frequently the conversation around "innovation" is limited to new venture creation, often in the context of a technology-based, venture capital-funded ecosystem. The out-sized focus on technology-driven innovation and entrepreneurship has led to the creation of business ecosystems and related policies that largely ignore the innovative potential and business growth opportunities for the vast majority of small businesses across all industries.

INNOVATION IS CRITICAL FOR ALL TYPES OF BUSINESSES, HELPING TO CREATE NEW OPPORTUNITIES AND TO DRIVE STRATEGIC CHANGE.

Figure 7.3 Top Resources to Help Small Businesses Innovate

TOP RESOURCES	COMBINED	*10KSB*	CONTROL
Better understanding of what resources exist*	30.6%	28.4%	44.3%
Specialized access to capital programs*	22.5%	24.2%	11.8%
Networks supporting exchange of ideas	19.5%	19.7%	18.2%
Training program on how to innovate	17.0%	17.6%	13.3%
Access to prototyping facilities	2.9%	3.1%	2.0%
Some other resource	1.8%	1.7%	2.5%
Time/lack of time is the barrier*	1.6%	1.2%	3.4%
Access to funds	1.2%	1.2%	1.5%
Adding/access to the needed human capital	0.8%	1.0%	—

** Statistically significant differences between* 10KSB *and control groups (p < .05).*

Intellectual Property

If small businesses are innovative in their pursuit of opportunities, do they know how to optimally capture innovation opportunities and protect them through intellectual property rights (IP)? Or does this pose a major challenge for small business owners with limited time and resources? Addressing these issues offers promise to further boost business growth and job creation.

The patent protection system was designed to be applicable in all kinds of industries, largely serving to stimulate the supply of innovation. For small companies, patents are intended to provide licensing opportunities with larger companies, as well as facilitate access to capital.[39] [40] Copyright protection covers "original works for authorship," and importantly, now includes computer software and architecture,[41] while trademarks "distinguish the course of the goods of one party from those of others."[42] Each of these protection tools serves a purpose in guarding product, service, or market innovations.

FEWER THAN HALF OF OWNERS KNOW HOW TO PROTECT THEIR INTELLECTUAL PROPERTY WITH PATENTS SPECIFICALLY.

While almost one-third of survey respondents have applied for intellectual property rights (patent, copyright, or trademark), fewer than half of owners know how to protect their intellectual property with patents specifically (39%). This demonstrates that there is a significant market for educating the small business populace about the importance of protecting their intellectual property and the competitive advantage this may provide.

Even greater differences are seen in the characteristics of the business. Younger businesses are more likely to secure intellectual property protection. There are also interesting industry patterns, as shown in *Figure 7.4.* Note that unlike most tables in this report which represent participation rates, the data here represents the actual number of IP awards in each area. Business owners in Manufacturing and Professional, Scientific, and Technical Services far outnumber all other industries in the IP they hold.

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[39] Gallasso, A., Schankerman, M.,"Patent Rights and Innovation by Small and Large Firms." Working Paper No. 21769. Dec. 2015. NBER.

[40] Murray. K.,"Starting a Business." SBA Blog. Accessed March 10, 2016. https://www.sba.gov/blogs/small-business-patents-copyrights-and-trademarks

[41] U.S. Copyright Office Definitions. Accessed April 11, 2016. http://www.copyright.gov/help/faq/definitions.html

[42] United States Patent and Trademark Office. Accessed April 1, 2016. http://www.uspto.gov/trademarks-getting-started/trademark-basics/trademark-patent-or-copyright

Figure 7.4 Intellectual Property Protection by Industry

INDUSTRY	PATENTS	COPY RIGHTS	TRADE MARKS
Accommodation and food	—	9	25
Administrative support	—	—	1
Agriculture	—	2	1
Arts	—	5	7
Construction	1	5	5
Educational services	1	6	9
Finance	—	1	3
Health care	3	7	13
Information	1	4	12
Management of companies	—	1	3
Manufacturing	20	20	47
Mining	—	1	1
Other services	4	23	36
Professional services†	14	37	43
Real estate	—	2	2
Retail	3	10	24
Transportation	1	2	5
Utilities	—	—	1
Wholesale	4	9	17
Agriculture	—	—	2
Total	52	144	257

† *Professional, scientific and technical services*

Implications

Small business owners recognize the importance of technological tools to support the growth of their businesses, while sharing concerns about knowledge gaps and costs related to staying up to date with what is available. Anecdotal evidence suggests that many entrepreneurial training programs would benefit from expanding their teaching or training emphasis from the development of technology-based businesses to the development of businesses through technology.

Small business owners also acknowledge that cyber-security is a risk, and only one in five feels that their businesses are very prepared for such a risk. One particular action could be taken to protect small businesses and their owners: government-issued standards related to cyber-security would provide a more uniform protective blanket for all small business.

Established small businesses are often overlooked in any conversation about innovation, instead focusing on either new businesses for radical innovations or large businesses for incremental innovations. Yet this research shows that within the *10KSB* sample, 35% of growth-oriented business owners are engaged in research and development in a new product or service, 46% are in the process of launching a new product or service, and 62% are improving the quality of an existing product or service. At the same time, approximately half of all survey respondents state they did not know how to apply for intellectual property protection. The business owners desire and need better information about ecosystem resources available to support their innovation activities, which could also include guidance around the protection of intellectual property. As localities create entrepreneurial resource guides, they need to include content that resonate with all sizes and ages of businesses.

Appendix

About the Survey Respondent Pool

When looking at the survey respondent pool as a whole, the firm ages range from two years old to over 200 years old with respective medians of 11 (*10KSB*) and 16 (control) years in business. By definition, their number of employees range from 4 to 500 with a median number of 13 (*10KSB*) and 11 (control). Respondents' businesses represent every industry sector, with the largest share of each sample found in services (including Professional, Scientific and Technical Services, and Other Services). *Figure 8.1* provides an overview of the demographics of the survey respondents' businesses.

The survey respondents as individuals are equally as diverse, with business owners' ages ranging from 25 to 77, with a median age of 48 (*10KSB*) and 54 (control) respectively. Similar to U.S. business owners in general, a proportionate number of both samples are college educated.

47% of the *10KSB* sample and 33% of the control group business owners are women. The two samples are different when it comes to race and ethnicity, with the *10KSB* sample including a greater representation of diverse businesses. Hispanic owners comprise 14% of the *10KSB* sample and 2% of the control group, Asian owners comprise 6% and 2% respectively; black owners 13% and 2% respectively; and white owners 69% and 93% respectively.

While the *10KSB* sample represents greater diversity, both the *10KSB* sample and control group share similar top challenges across issues related to access to capital, the regulatory environment, workforce development, and technology.

Figure 8.1 Business Characteristics[43]

		COMBINE	*10KSB*	CONTROL
Age of Business*	Mean (median)	17.4 (12.0)	16.8 (11.0)	22.6 (16.0)
Number of Employees*	Mean (median)	4.3 (12.0)	25.3 (13.0)	15.9 (11.0)
Total Revenues (2015)	Under $150,000	2.7%	3.0%	—
	$150,000 - $499,999	24.9%	25.5%	20.3%
	$500,000 - $999,999	24.5%	23.5%	32.7%
	$1 million - $4 million	38.1%	37.0%	47.0%
Industry[44]	Accommodation and food services	6.1%	5.9%	7.9%
	Admin. and support and waste mgmt. and remediation services	0.3%	0.3%	—
	Agriculture and forestry	0.5%	0.5%	1.0%
	Arts, entertainment and recreation	2.5%	2.7%	1.0%
	Construction	10.2%	10.1%	10.9%
	Educational services	4.1%	4.2%	3.5%
	Finance and insurance	2.7%	2.5%	4.5%
	Health care and social assistance	6.0%	5.7%	8.9%
	Information	2.7%	2.9%	1.0%
	Management of companies and enterprises	0.9%	1.0%	—
	Manufacturing	10.7%	10.7%	10.9%
	Mining, quarrying, oil and gas extraction	0.2%	0.2%	—
	Other services	17.4%	17.6%	15.8%
	Professional, scientific and technical services	18.8%	19.3%	14.9%
	Public administration	0.1%	0.1%	—
	Real estate and rental and leasing	1.5%	1.4%	3.0%
	Retail trade	8.3%	7.7%	13.9%
	Transportation and warehousing	2.4%	2.6%	1.0%
	Utilities	0.2%	0.2%	—
	Wholesale trade	4.3%	4.5%	2.0%

**Statistically significant differences between* 10KSB *and control groups (p < .05).*

[43] A small number of respondents reported under 4 or over 500 employees and are included in the demographics above. Their inclusion in the analysis is managed through the weighting methodology.

[44] This table presents the full industry distribution of both the *10,000 Small Businesses* and the control group respondents. The analysis of this report includes only industry sectors with at least 1.0% representation in each sample. Therefore additional analysis of Administrative and Support and Waste Management and Remediation Services, Agriculture & Forestry, Management of Companies and Enterprises, Mining, Quarrying, Oil & Gas Extraction, Public Administration, and Utilities is not included.

Figure 8.2 Business Owner Characteristics

OWNER DEMOGRAPHICS		COMBINED	*10KSB*	CONTROL
Age	Mean age of owner* (median)	48.5 (49.0)	47.8 (48.0)	54.4 (55.0)
	Millennials (born 1980-2000)	12.5%	12.7%	11.4%
	Generation X (born 1965-1979)	48.6%	49.8%	28.4%
	Baby Boomers (born 1946-1964)	37.5%	36.6%	54.7%
	Traditionalists (born 1900-1945)	1.3%	0.9%	5.5%
Sex	Women	45.5%	47.0%	33.2%
	Men	53.7%	52.2%	65.8%
Race	White	71.3%	68.7%	92.6%
	Black or African American	12.1%	13.3%	2.0%
	Asian/Chinese/Japanese	5.1%	5.5%	1.5%
	Native American/American Indian/Alaska Native	0.5%	0.6%	—
	Native Hawaiian and other Pacific Islander	0.4%	0.4%	—
	Mixed	2.8%	2.9%	1.5%
Ethnicity	Hispanic	12.5%	13.8%	2.0%
Education	Some high school or high school graduate	4.8%	4.3%	7.4%
	Some college, or college degree (community college, college, university)	57.0%	56.6%	59.4%
	Some or postgraduate schooling or postgraduate or professional degree, including master's, doctorate, medical or law degree	38.2%	39.1%	33.2%

** Statistically significant differences between* 10KSB *and control groups (p < .05).*

Methodology

This research was commissioned by Goldman Sachs *10,000 Small Businesses.* The survey was administered by SSRS, a third party, independent research firm over a three-week period between March 10 and 28, 2016.

Interviews with over 1,800 established small business owners in the United States were conducted via an online survey. The survey was administered to *10,000 Small Businesses* program participants, which is a population of business owners who are actively seeking growth (*10KSB* group), along with an unaffiliated sample selected by similar size and age criteria (control group). The goal of selecting the control group was to include small businesses that differed from *10KSB* program participants only in whether they participated in the program or not. The control sample was generated from the Dun and Bradstreet database, with qualifying respondents defined as owners of small businesses that have been in business for two or more years, a minimum of four employees, and annual revenues of $150,000 to $4 million.

The online survey was designed to take about 15 minutes to complete and SSRS conducted pretests prior to field work to ensure that proper wording, question sequencing, and informational objectives were met. A total of 1,679 interviews were completed in the *10KSB* group and 202 interviews were completed in the control group. The samples were weighted to allow for comparisons between the two groups.