

Small-Business Owner Concerns

Many small-business-related problems reach the attention of policy-makers. Some are important to large segments of the population. Others are parochial, bounded by industry, geographic or individual considerations. Since all of these matters neither have equal importance nor can be addressed at one time, priorities must be established. Several factors influence the development of a priorities list. The most important influence, however, should be small-business owners themselves. They should advise policy-makers which business problems and issues are more and less important to them and thereby which should have priority.

Every four to five years, NFIB conducts a large survey of its members to determine their business concerns. The purpose of the project is to have small-business owners identify the problems and problem areas that worry them most. This procedure and its results makes small-business owners their own spokesmen.

The most recent editions of the survey presented owners with 75 possible business problems. The list included difficulties directly amenable to public policy initiatives and difficulties more related to the individual's management of the firm. The survey asked sampled small-business men and women to rank each of the 75 in terms of severity on a scale of "1" for a critical problem to "7" for not a problem. The results were totaled and a list of problems established from the most to the least severe. The last survey in the series was conducted in the first half of 2000¹ and the principal results appear in Exhibit 4.1.

The most pressing problems on the list come as no surprise. They reflect the results of other small-business surveys conducted by other sponsors.² The primary attribute of the list presented in Exhibit 5.1 compared to the result of other problem lists is the number and variety of problems evaluated. Few can claim that their special problem was omitted.

The Highest Priorities for Small Business

Exhibit 5.1 shows that the single greatest concern for small-business owners is the "Cost of Health Insurance." The health insurance problem is not a new concern. It has headed the list in the last four rankings beginning with the 1986 survey. At least two significant points stand out about the problem's ranking. The first is that 47 percent of respondents termed the problem "critical," the most severe evaluation that could have been given and another 23 percent assigned it the second most severe ranking. Yet, less than half of the NFIB membership offers employee health insurance. The problem's assessment means that not only are small-business men and women who offer employee health insurance deeply concerned, so are many who don't offer it. A number would like to provide such insurance, but find its cost prohibitive.³ The second significant point about the ranking is that the survey was conducted at a time when health insurance premium increases supposedly were benign. Reports from NFIB members suggest that small-business owners once again are experiencing sharp increases in their health insurance premiums. The ranking shows the depth of concern with the current situation and warns of the potential impact on coverage from another round of rapid price increases.

The second problem on the list is “Federal Taxes on Business Income.” Unfortunately, federal taxes on business income is only part of a much larger tax headache. Three of the top six problems in the ranking involve taxes—federal business income, FICA, state business income. If paperwork is included as a tax problem (the IRS is the largest generator of Federal paperwork),⁴ half of the top 12 ranked problems involve taxation. There appear to be three primary bases for small-business owners’ concern. First, is the total tax burden—the amount taken and the administrative burden shouldered. This concern is fed by the overwhelming belief that taxpayers receive poor value for their tax dollar, particularly from Washington.⁵ The second base is that taxes are vastly too complicated and require too much time and expense to be compliant. The problem is not just the cost of the tax per se, it is the cost of professional tax assistance and record-keeping plus the personal hassle often involved. The final basis is equity. Small-business owners don’t feel the tax system is fair. “Fairness” is a subjective term. Yet, most Americans probably feel that paying taxes on income that has already been taxed is not fair. Estate and gift tax is often paid on income already taxed. Small-business men and women consider estate and gift tax the single most unfair type of tax levied.⁶ They focus less on tax neutrality and economic efficiency.

The third most serious problem on the priority list is “Locating Qualified Employees.” The most notable aspect of this problem is its rapid rise in the last few years. It ranked 23rd as recently as 1986. *Small Business Economic Trends* documents the quarter-to-quarter changes in small business difficulties filling job vacancies.⁷ It shows a clear cyclical tie between the two. It is, therefore, to be expected that labor markets are tight. However, notably more small-business owners report difficulty filling vacancies now than at any time in the past quarter century. These job openings customarily involved recruiting and hiring (and later retaining) skilled employees. Locating qualified employees is now a problem that has spread to all skill levels. The problem appears more serious in the nation’s largest urban areas than in rural

areas and among larger small firms rather than the very small. Still, locating qualified people now is generally a more serious problem for small business than it has been in memory.

“Unreasonable Government Regulations” places fourth on the problem list. The regulatory problem, like the personnel issue, has also moved up the ranking over the last 15 years. It ranked 14th in the first survey in 1982, dropped to 19th in 1986 and then began its final climb. Not surprisingly, the problem’s positioning on the list has generally moved with change in the number of pages in the *Federal Register*. No one agency or functional area appears responsible for the high level of concern with regulatory excess. Note on Exhibit 5.1 that specific regulatory areas, e.g., health and safety, environmental, fall in the middle of the problem list. The problem’s source appears cumulative with one agency’s requirements piled on another agency’s on yet another agency’s. The issue then becomes not so much corralling any one agency, though there are clearly those with greater and lesser impacts, but corralling the regulatory process.

Even outside the top few problems, the list contains important insights into the problems small-business owners face. Consider the 21st problem on the list, “Cost of Outside Business Help, e.g., Accountants, Lawyers, Consultants.” Professionals are normally very skilled and well-educated individuals. The cost of professional services is high. Thus, when government compels small-business owners to fill out another piece of paper or get another legal opinion on how to proceed on a project, the cost is not incidental. The more frequently government drives small business to need professional services, the less incidental their costs become. The careful observer will note that the problem was ranked as considerably more difficult in 2000 than in 1996 (Exhibit 5.1). That change appears largely due to the addition of the phrase “e.g., Accountants, Lawyers, Consultants” in the problem, a change made to clarify possible confusion over its reference to professional service help rather than other types of assistance.

Exhibit 5.1

Measures of Small Business Problem Importance

Problem	Rank	Mean Rating	Standard Deviation	Percent “Critical”	Percent	
					“Not a Problem”	1996 Rank
Cost of Health Insurance	1	2.22	1.66	47.3	5.1	1
Federal Taxes on Business Income	2	2.86	1.79	28.7	6.8	2
Locating Qualified Employees	3	3.09	2.05	30.5	11.6	11
Unreasonable Government Regulations	4	3.14	1.86	24.5	7.4	4
FICA (Social Security) Taxes	5	3.35	1.85	18.7	9.3	5
State Taxes on Business Income	6	3.36	1.92	20.1	6.6	8
Workers’ Compensation Costs	7	3.40	2.00	21.8	12.3	3
Federal Paperwork	8	3.42	1.85	17.5	8.9	7
Cash Flow	9	3.42	1.88	19.4	8.8	10
Cost of Natural Gas, Gasoline, Fuel Oil	10	3.47	1.96	20.7	10.9	17
Frequent Changes in Federal Tax						
Laws and Rules	11	3.49	1.86	18.0	8.6	9
State/Local Paperwork	12	3.65	1.81	12.8	26.9	13
Cost and Availability of Liability Insurance	13	3.65	1.91	15.6	10.8	12
Physical Facilities Costs, such as Rent/ Property Taxes	14	3.69	1.84	12.8	10.4	6
Telephone Costs and Service	15	3.70	1.74	10.9	8.5	18
Dealing with IRS/State Tax Agencies	16	3.75	1.89	14.3	11.1	14
Cost of Supplies/Inventories	7	3.77	1.77	10.7	10.3	19
Keeping Skilled Employees	18	3.79	2.11	18.1	16.7	29
Electricity Costs (Rates)	19	3.85	1.80	10.9	10.8	21
Poor Earnings (Profits)	20	3.88	1.93	14.7	11.8	22
Cost of Outside Business Help, e.g., Accountants, Lawyers, Consultants	21	3.89	1.81	9.5	12.0	52
Fixed Costs Too High	22	3.90	1.81	11.2	11.4	16
Death (Estate) Taxes	23	3.92	2.29	21.8	23.5	38
Competition from Large Businesses	24	3.94	2.04	14.6	16.2	23
Controlling My Own Time	25	3.95	1.97	12.4	16.3	20
Projecting Future Sales Changes	26	3.97	1.77	8.1	12.6	27
Highly Variable Earnings (Profits)	27	3.98	1.82	9.9	12.0	26
Unemployment Compensation	28	3.98	1.99	12.3	16.7	15
Interest Rates	29	4.04	1.86	10.3	13.5	24
Cost of Government Required						
Equipment/Procedures	30	4.06	1.97	11.9	16.7	25
Health/Safety Regulations	31	4.07	1.96	11.1	17.0	32
Hiring/Firing/Employment Regulations	32	4.10	1.97	10.6	17.7	Not incl
Finding Out about						
Regulatory Requirements	33	4.12	1.87	8.8	15.1	28
Ability to Cost-Effectively Advertise	34	4.15	1.94	8.8	18.3	31
Frequency of Tax Withholding Deposits	35	4.16	1.97	10.7	18.9	34
Locating Business Help When Needed	36	4.17	1.95	10.7	17.0	42
Pricing My Goods/Services	37	4.18	1.89	9.2	16.5	35
Training Employees	38	4.19	1.96	9.3	19.4	33
Environmental Regulations	39	4.19	2.05	12.3	20.7	30
Keeping Up on Business and Market Developments	40	4.33	1.73	5.5	14.1	36

Problem	Rank	Mean Rating	Standard Deviation	Percent “Critical”	Percent “Not a Problem”	1996 Rank
Purchasing and Using Computer(s) or New Technology Effectively	41	4.38	1.86	6.3	18.4	39
Sales Too Dependent on Health of One Business or Industry	42	4.42	1.97	9.5	21.7	45
Employee Turnover	43	4.42	2.08	11.5	24.5	47
Delinquent Accounts/Customer Financing	44	4.44	1.97	8.6	20.9	40
Low Employee Productivity	45	4.45	1.90	7.2	20.1	44
Minimum Wage/“Living” Wage	46	4.46	2.07	11.0	25.0	57
Handling Business Growth	47	4.58	1.78	4.2	20.2	46
Applications for Licenses/Permits, etc.	48	4.58	1.92	7.1	22.9	43
Rules on Retirement Plans	49	4.62	1.90	6.5	24.0	41
Poor Sales	50	4.63	1.88	7.4	21.3	48
Zoning/Land Use Regulations	51	4.65	2.07	10.4	28.4	56
Collecting Sales and/or Excise Tax for Government	52	4.70	2.03	8.2	30.2	50
Getting Information of Government Business Assistance Programs	53	4.72	1.93	7.0	26.9	55
Waste Disposal	54	4.72	1.95	6.3	27.5	37
Sales Too Seasonal	55	4.78	1.90	6.4	25.6	51
Getting Useful Business Information	56	4.85	1.70	3.3	22.5	53
Anti-Competitive Practices, e.g., Price-Fixing	57	4.86	1.97	7.5	30.1	62
Bad Debts (Not Delinquencies) and/or Bankruptcies	58	4.87	1.88	6.3	26.5	60
Traffic, Parking, Highways	59	4.88	2.01	7.5	32.2	59
Protecting Intellectual Property	60	4.92	1.92	6.2	31.0	71
Controlling Inventory	61	4.94	1.83	4.4	29.2	61
Cost-Effective Mail Service	62	4.99	1.84	4.7	30.9	58
Effective Business Use of the Internet	63	5.11	1.80	3.5	32.8	Not incl
False Insurance Claims, such as for Workers’ Compensation and UC	64	5.15	2.01	7.0	39.0	Not incl
Crime, including Bad Checks, Shoplifting, etc	65	5.16	1.87	5.5	32.1	Combined
Obtaining Long-Term (5 years or more) Business Loans	66	5.22	1.89	5.7	37.3	63
Locating Satisfactory Suppliers	67	5.23	1.71	3.1	31.6	66
Credit Rating/Record Errors	68	5.25	1.82	4.5	35.8	68
Obtaining Short-Term (less than 12 months or revolving) Business Loans	69	5.32	1.92	6.6	40.7	64
Selling to Federal/State/Local Governments	70	5.43	1.86	4.1	45.8	67
Competition from Internet Businesses	71	5.49	1.79	4.2	44.0	Not incl
Competition from Imported Products	72	5.54	1.87	5.7	48.4	74
Competition from Government or Non-Profit Organizations	73	5.55	1.80	4.1	46.3	73
Exporting My Products/Services	74	5.93	1.69	3.5	61.6	75
Y2K Impacts	75	6.29	1.27	1.0	65.2	Not incl

Not incl = The problem was not included on the 1996 survey.

Combined = The problem combines two problems appearing on the 1996 survey.

The Lowest Priorities for Small Business

“Globalization” is one of the most popular buzzwords in today’s lexicon, but as most buzzwords it contains a healthy dose of truth.⁸ The world has reached American small business despite the fact that most small businesses continue to operate in local markets most of the time. One of the most important aspects of globalization is the expansion of international trade. The United States is conducting business in a more open international economic environment than ever before. However, demonstrations in Seattle and Washington show that the impacts of globalization have not been universally popular.

Despite the controversy hovering over the World Trade Organization’s (WTO) activities and squabbles over implementation of the North American Free Trade Agreement (NAFTA), international trade lies near, when not at, the bottom of small business’s problem list. Exhibit 5.1 displays that “Exporting My Products/Services” ranked 74th in the 2000 survey, one higher than the 75th and dead-last position it has occupied since it was first placed on the list for evaluation in 1986. Even manufacturers, those presumably most interested in export markets, ranked the problem in the bottom ten. Similarly, “Competition from Imported Products” ranked 72nd in the 2000 survey. The most serious evaluation small-business owners have given import competition was in 1986 when they ranked it 59th out of 75. However, the problem has occupied a slot in the bottom five for a decade.

It is not clear that these rankings imply support for the free-trade policies that have permitted the increased flows of goods and services across American borders. But the rankings demonstrate that small business neither objects to the current direction of trade policy nor has difficulty participating in international trade to the extent desired. As a result, this guide contains no section on globalization, international trade, or exporting. It is a non-issue for the overwhelming majority of small-business owners.

Also notable is the relatively low rank of problems related to borrowing. Not only does the ability to obtain both short- and

long-term credit appear in the bottom ten (out of 75) on the priority list, *Small Business Economic Trends* reports that over the first half of the year 2000 an average of 38 percent could obtain all the credit they wanted in the prior three months while four percent could not.⁹ (The remainder did not want to borrow.) The general lack of concern over credit availability has been typical since the early 1990s.

Borrowing will be examined later in the context of small-business finance because there is an obvious cyclical component to the issue, because there are gaps in small-business finance which appear at different times and places, and because those who find credit availability a problem tend to feel it acutely. Note in Exhibit 5.1 that while 40 percent indicate that short-term credit availability is “Not a Problem,” i.e., the least severe evaluation possible, almost seven percent termed the problem “Critical,” i.e., the most severe evaluation possible.

Small-business owners also appear nonchalant over the impacts of technology on their firms. Except for concern over “Telephone Costs and Services,” a result of consumer confusion and industry turmoil,¹⁰ the survey did not identify adoption of technology as a matter of particular concern. For example, “Purchasing and Using Computer(s) or New Technology Effectively” ranked in the middle of the priority list. Small-business owners appear to be incorporating new technology, particularly new information technology, though it may not be as well integrated into the firm’s business strategy¹¹ or adopted as rapidly as advisable. Much of technology adoption involves a continual process of upgrading that many small-business owners take as routine. They faced the Y2K problem with seeming indifference. Yet, by systematic upgrades of hardware and software, the most common means of handling the potential problem, they experienced virtually no after-the-fact problems.¹² The technology problem is a conventional business problem; just the circumstances and subject matter differ. One survey identified the most important challenges of information technology as affording its cost, managing changes/upgrades to software, and

anticipating business needs for the technology.¹³ These are traditional management concerns, not policy issues. In addition, many owners have the capability to distinguish between present and future needs. Just 11 percent feel that Internet sales currently constitute significant competition for their firms, but almost three times that many (30%) feel that Internet sales will constitute significant competition in the future.¹⁴ Nonetheless, technology will be revisited at greater length because there are policy issues that merit attention.

Lastly, issues involving economic performance are relatively low on the priority list reflecting the healthy state of the American economy. “Poor Sales,” for example, ranks 50th. That is remarkable! Businesses are forming and dissolving continuously. New products and services are constantly introduced and old ones abandoned. People are moving from neighborhood to neighborhood and from community to community. Yet, sales remain strong for most small firms and sales are a critical element in small-business prosperity. This happy state is subject to rapid change, however. A recession will send problems such as sales and earnings and customer financing issues rushing up the problem list. But for the time being, general business conditions are not a small-business concern.

Conclusion

Small-business owners have very clear public policy priorities. Those priorities are not always the priorities of public officials. However, public officials cannot claim that they are not aware of small-business concerns. Their concerns have been communicated ad nauseam and will continue to be. So, the failure to address priority matters or putting other issues ahead of them is the result of conscious choice, not ignorance.

Endnotes to “Small-Business Owner Concerns”

1. William J. Dennis, Jr., *Small Business Problems and Priorities*, NFIB Education Foundation, Washington, D.C., 2000.

2. The small-business owner views captured by the NFIB survey are more comprehensive, but similar in tone to those collected in other surveys sponsored by other organizations. Examples of other surveys include: “Survey of small and mid-sized businesses: Trends for 2000,” by Arthur Andersen and Small Business United, 2000. It identified health-care reform and fundamental tax reform as the two primary policy issues. It further identified finding and retaining qualified workers and state and federal regulations as the most important challenges to growth and survival. A “Voices on Main Street” poll conducted for American Express Small Business Services in early 2000 found that the top five issues “very important” to small business were in order: improving schools/training young people for work, affordable health-care for employees, affordable health care for business owners, tax cuts/tax reform, and reducing government regulations and paperwork (*Business Wire*, March 16, 2000). The “D & B (Dun and Bradstreet) Small Business Survey” reported rising health-care costs as the number one problem faced by small businesses over the prior year (*Business Wire*, May 25, 2000). An Intuit commissioned survey of firms with 20 or fewer employees reported the biggest challenges to be faced in 2000 were taxes, finding and retaining employees, regulatory issues and securing financing (reported in Robert Schwab’s small business column, *Denver Post*, January 2, 2000).

3. There is an identifiable relationship between owner income from the business and the propensity to offer employee health insurance. The relationship is discussed in the health section of the publication.

4. The Department of the Treasury, primarily the IRS, accounts for over three-fourths of the paperwork burden on businesses and individuals. Murray

Weidenbaum, *A New Approach to Regulatory Reform*,” Center for the Study of American Business, Washington University, St Louis, MO., August, 1998. There is no reason to believe that small business deviates appreciably from the total distribution.

5. “Survey on Tax Policy,” National Federation of Independent Business, Washington, D.C., summer, 1995, mimeo.

6. Ibid.

7. *Small Business Economic Trends*, NFIB Education Foundation, Washington, DC, series.

8. Thomas L. Friedman, *The Lexus and the Olive Tree*, Anchor Books, New York, NY, 2000.

9. *Small Business Economic Trends*, op. cit., January-June, 2000.

10. Between 1982 and 1999, the number of complaints received by Virginia’s State Corporation Commission about telephone service rose from 2,646 to 17,754. The number took huge jumps following the breakup of AT&T and after the 1996 Telecommunications Act. The transitions clearly left many small business owners frustrated over basic service. See, Greg Edwards, “Blamegame; Competing Companies Accuse Each Other of Causing Glitches in Local Telephone Service,” *The Richmond Times Dispatch*, May 8, 2000, p. D-16.

11. Jerome A. Katz, “NFIB Internet Study: E-Commerce,” NFIB Education Foundation, Washington, DC, March 2000, mimeo.

12. William J. Dennis, Jr., “Small Business and the Y2K Problem,” Parts I-IV, NFIB Education Foundation, Washington, DC, May 1998-November, 1999.

13. “Survey of small and mid-sized businesses,” op. cit.

14. William J. Dennis, Jr., “Taxing Internet Sales: The Small Business Perspective,” NFIB Education Foundation, Washington DC, March, 2000.