



National League of Cities

Small Business Growth during a Recession: Local Policy Implications

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National League of Cities

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- Research overview
- Small business development stages
- Local small business policies
- Model
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Research Overview

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



Small Business Development Stages

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



Small Business Development Stages

Self-Employed

- 36% of establishments, 7% of jobs
- “Idea” stage
- Survival dependent on competencies of owner
- Lacks business plan



Small Business Development Stages

Stage 1

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



Small Business Development Stages

Stage 2

- 8% of establishments, 35% of jobs
- 10-99 employees
- \$750K-50 million annual revenues
- Past start-up, but not mature
- Greatest economic impact- external markets
- Expansion capital
- Delegation and strategic planning



Policies: Management and Skills Development

- General management training, financial advising, business plan assistance, other technical assistance
- Offered through SBDC
- Counties with management and skills development programs will likely have higher levels of small business growth, particularly in earlier stages.



Policies: Market Expansion Assistance

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



Policies: Regulatory Assistance

- Permitting and zoning assistance, streamlined permitting process
- Counties with permitting and zoning assistance will likely have higher levels of small business growth overall.



Policies: Access to Capital

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



Policies: Supportive Culture

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

Small Business Growth =

Local policies

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

+

Location Factors

Population Growth, Industry Density, Unemployment, Human Capital



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All Small
Business
Growth

Adj. R² = .40

Self-
Employed
Growth

Adj. R² = .14

Stage 1
Growth

Adj. R² = .41

Stage 2
Growth

Adj.R² = .18

Pop growth, 07-08

+**

+**

+**

+*

Industry density, 07

+**

+

+**

+*

Unemployment
growth, 07-08

+

+

+

+

% prof/mngt, 07

+

+

+*

+

SBDC

-

-

-

-

Marketing Asst.

+

+

+

+

Permit and zoning

+**

+**

+**

+*

Revolving loan fund

-**

-

-**

-

Partner with Private

+*

+

+**

+*



Findings: Policy Variables

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

Conclusions

- Most significant policies are creating a supportive culture between public and private sectors and providing regulatory assistance; rethink RLF, SBDC, marketing
- Differential relationships between policies and stages of development > although direction consistent, strength of impact varies
- Greater study of policies impacting stage 2



Recommendations for Local Government

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



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