New Study Finds Economic and Political Uncertainty Top Impediments to Small-Business Growth

WASHINGTON, D.C., Nov. 22, 2011 — A new study examining impediments to growth in the small-business sector reveals that 72 percent of small-business owners would like to expand by adding employees within the next five years, but various impediments are currently standing in their way.

According to Growth – External Factors, a report prepared by the National Federation of Independent Business (NFIB) Research Foundation, uncertainty and weak sales are the two primary impediments to small-business growth.

“There is no question that small businesses are responsible for a significant portion of the job creation in our economy,” said William J. Dennis, report author and senior fellow at the NFIB Research Foundation. “Their growth and success is often contingent upon a litany of factors beyond their control – but within the purview of policy-makers in Washington. Impediments to growth may not be easily overcome, but if we are ever to bridge the gap between desired and actual growth, government officials must look at the problems small businesses face. Understanding the challenges should help with the formulation of policies that would help them to thrive.”

The study found that business uncertainty and weak sales—identified as the two primary impediments to small-business growth— are currently limiting the ability of many owners to expand. While economic concerns rank high in the minds of owners, a large number of small businesses also report that uncertainty is a significant factor in making business decisions. Not surprisingly, the single most important indicator that would renew small-business owner confidence in business conditions is increased sales in their businesses. This is a fact supported by NFIB’s monthly Small-Business Optimism Index report, which has identified poor sales as the top business concern for small firms for 16 quarters running.

Other notable survey findings include:

- Uncertainty is a growth impediment impacting 61 percent of small employers; only 25

percent say uncertainty does not impact them. However, owners of the smallest firms and owners of the young firms were more likely to identify uncertainty as a concern than owners of larger small firms and more established firms. And while the majority of small employers who believe that uncertainty is a hurdle think of it as economic in nature (83 percent), a comparatively large number term their uncertainty as related to political questions. An extraordinary 51 percent who think uncertainty is an impediment to growth (38 percent of the small-employer population) blame the current political situation at least in part as obstructing their growth.

- While the adverse impact of regulation is often challenging to identify, 40 percent of small employers say that regulatory or legal issues are an impediment to growth. The complex labyrinth of regulations as opposed to a specific regulation or set of regulations was more often cited as an obstacle, with 63 percent of this group (31 percent of the population) reporting that a current investment or project was impacted by a regulatory matter. One-quarter of those who find regulations to be a burden either cancelled a project scheduled for the next six months or abandoned investment and/or project plans.
- Forty-one (41) percent reported the lack of finance as an impediment to growth and 19 percent ranked it a serious matter. Though 15 percent of small employers asserted that the lack of finance was their biggest obstacle to growth, 49 percent termed it a minor or no obstacle. More than half (53 percent) of small firm owners surveyed think that internally generated cash flows will be their most important source of financing desired investment over the next five years. Bank loans will be the second most common source. However, 33 percent of those identifying lack of finance as an impediment to growth say that existing financial obligations are “seriously constraining” their ability to finance desired business investment and another 44 percent say that it is constraining.
- With the unemployment rate near 10 percent, finding skilled workers is still a struggle for small-businesses. Sixty-one (61) percent of those surveyed (24 percent of the total population) said the lack of skilled employees is an impediment to growth and indicated that they would hire at least one additional employee at the current market wage rate in the next six months if they could find people with appropriate skills. Over 37 percent (9% of the population) would employ more than one.
- Just 15 percent of small-business owners cite the lack of a strong management or advisory team as an impediment to growth. Of the group currently possessing a management team, 47 percent are highly confident their current team can provide the necessary assistance to reach the firm’s growth objectives in the next five years. Most citing this impediment want to add management employees rather than to change the ones they have.

The latest NFIB Small Business Poll, Growth – External Impediments, is available at http://www.nfib.com/growthstudy
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