Existing Sources of Information and Future Research Needs

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THE PENNSYLVANIA TECHNICAL ASSISTANCE PROGRAM (PENNTAP), a public service of the Pennsylvania State University and the Commonwealth of Pennsylvania, under a contract from the U.S. Small Business Administration's Office of Advocacy, has managed this economic project to analyze the past and current status of and to make recommendations for the future welfare of small businesses in Region III.
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"Existing Sources of Small Business Information and Future Research Needs"

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REGION III
CHAPTER N

SOURCES OF INFORMATION
FUTURE RESEARCH NEEDS

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ABSTRACT

Creative progress in the development and continuation of the small business phenomenon in the United States is dependent upon the direction and quality of small business data bases and corollary research findings. Government policymakers have long recognized this dependency, which is currently of growing interest within the private sector. This paper presents a review of existing research and data sources within SBA Region III as well as an analysis of future directions research and data base developments should consider. Since the small business sector provides approximately 43 percent of the total gross national product, over 58 percent of the total business employment, and comparative advantages in the proliferation of important inventions, quality research based upon an adequate standardized data requires top priority in the public and private economies.

Existing information sources within Region III can be found through many different primary sources, including federal, state, local and private organizations. Difficulties in attempting to utilize these data are based upon their inconsistencies with reference to such matters as the definition of variables, collection periods used, geographic considerations and other critical aspects of data base design which create incompatibilities between data sources. The creation of a universal data base is obviously needed and must include accurate and representative data which is interchangeable, having standard definitions, current data and easy accessibility. Our recommendation in this area is that a single federal agency be assigned the responsibility of developing a comprehensive, standardized small business data base that would be available to qualified researchers. This goal is attainable if supported by existing public/private data sources and the small business community in general.

The history of existing research within Region III is based upon the need to produce descriptive data sources to be used in policy decisions. Research of this type is generally user-specific and therefore not directed toward the extension of generalized knowledge regarding small business. Federal and state agencies, universities, and the private sector provide such useful descriptive statistics, however this information
has not been found to be sufficient in addressing the ongoing problems facing small business. Critical issues such as capital formation, taxation, ownership continuation, procurement, inflation and the opportunities of international trade require an understanding based upon the new and/or improved knowledge created by theoretical or empirical research rather than descriptive presentations. Accurate theories and empirical findings also require fundamental knowledge based upon acceptable data. Our recommendation in this area is that efforts be undertaken by both the public and private sector to support and encourage quality research in the small business area based upon the standardized, adequate data base developed by a single federal agency. Such support would result in theoretical and empirical findings that would assist private and public policymakers in developing solutions to such problems as capital formation, ownership continuation, inflation and other concerns which would lead to an enhancement of the growth and stability of the entire U.S. economy.

Without this increased emphasis on research on small business, public policy will continue to be made without the benefit of a thorough understanding of the small business sector. If the research and standardized data base are created, however, the public policymakers should be able to make more informed decisions which will not only benefit the small business sector directly, but also the American people.

. . . No one can make a true determination of either the current status or the future prospects of small business. The reason for this inability is that key information still remains unknown because of a data shortage.¹

This shortage of data on small businesses is just as true in Small Business Administration's (SBA) Region III as it is nationwide. Without valid and reliable information on the small enterprises, it is difficult to generalize on the vitality and profitability of the small business section of Region III. The present business data being collected by government and private agencies is not standardized or comprehensive enough to be used by researchers and policymakers.

The need for a comprehensive and interchangeable data base has long been recognized by researchers and the U.S. Small Business Administration (SBA). The known limitations of present government and private data bases, including a basic lack of agreement on what constitutes a small business, are also well documented in the literature. There are wide differences between sources in the number of firms, employment levels, business starts and business failures. These differences are reflected by David E. Gumperts's column in the Harvard Business Review where he states that "... depending on the statistics one uses, the status of small business innovation can be viewed extremely unfavorably or rather optimistically." Because of the current limitations in finding reliable small business data, this statement could have been made about the current state and the future outlook for American small business in general.


EXISTING SMALL BUSINESS RESEARCH IN REGION III

Existing research efforts in Region III have focused upon the need to produce descriptive data sources for policy decisions. Virtually no region-specific theoretical or empirical tests are available from such publications as the Journal of Small Business Management, the American Journal of Small Business, or other such sources. However, research advances have been made in the descriptive area through federal agencies, state governments, universities and the private sector. Although there were no Region III data bases, some information could be taken from national data bases maintained by public and private agencies.

FEDERAL AGENCIES

Federal agencies provide a large quantity of economic data and descriptive research on Region III. The Department of Commerce promulgates this information through the Bureau of Economic Analysis (BEA), the Office of Minority Business Enterprise (OMBE), and the Economic Development Administration (EDA). These organizations also cooperate on several research efforts.

In general, the major weakness of federal data bases is that they were all developed for some other reason than small business research. Thus it is not surprising that we found vast differences in the definitions and assumptions used to develop the data bases. For example, the IRS file does not rigorously follow the SIC coding system.

STATE AGENCIES

State organizations within Region III have continued to produce research data for the primary purpose of monitoring/expanding economic development. State respondents to our survey indicated that their efforts were usually industry-related and that they eventually used this work to provide technical assistance or general suggestions regarding funding, trends or characteristics within their economic development area.

\[\text{Office of Advocacy, SBA, Study of Small Business, p. 6.}\]
\[\text{Naidn, Vital Statistics, p. 13.}\]
Thus, state data usually are either economic or demographic information. Seldom do they specifically collect small business data. The state data are typically useful in plant location and market feasibility studies; however, they are of only limited value in applied small business research.

UNIVERSITIES AND COLLEGES

Universities have virtually neglected commitments to theoretical or empirical research on small business. Many within Region III have created centers for business research, yet few have produced results beyond descriptive economic analyses. Several of those surveyed indicated that they have provided research advice to specific industries in the areas of taxation, markets, industrial development, regional planning and forecasts. This form of research, however, is not generally available nor published in major journals or trade publications for others to assimilate.

PRIVATE ORGANIZATIONS

The private sector of Region III has provided a great deal of descriptive research via national offices (generally located in Washington, D.C. for lobbying purposes). These organizations produce timely publications regarding regional economic trends which are often considered in setting government policies. Perhaps the best known private source of research on small business is the National Federation of Independent Business (NFIB), an organization claiming membership of over 550,000 small and independent businesses. Primary research efforts are focused upon the Small Business Fact Book and other publication on specific issues of current political interest.

Some banks, CPA societies and trade associations publish small business data and articles. Typically, these data bases are industry or area-specific and none were found to apply to Region III as a whole. The articles are usually very general and descriptive in nature.
PROPOSED RESEARCH TOPICS

The Select Committee on Small Business of the Senate held a hearing on small business issues and priorities in Washington, D.C. on November 16, 1978. From it came a surprisingly uniform set of topics for future small business research, suggesting that research priorities are not region-specific. Many representatives of small business organizations were on hand to testify about constituent's priorities for assistance. The majority of these witnesses (and others since the hearing) identified the following small business areas for further immediate study:

a) Capital Formation
b) Management/Control of Inflation
c) Product Liability
d) Federal Regulation/Paperwork
e) Taxation
f) International Trade
g) Family Ownership Continuity
h) Coalition of Small Businesses
i) Government Procurement Opportunities
j) Research and Technology
k) Small Business lending by Banker
l) Small business data bases, creation and management

These topics point out areas in which quality research is needed before new policy decisions are formulated. In each case, the movement from appropriate descriptive statistics to policy recommendations could be achieved with or without regard to specific SBA Regions if appropriate data bases and other motivations for research are available.

INADEQUATE RESEARCH AND DATA BASES

Contemporary research efforts by both academic and non-academic institutions can usually be classified into three general forms: 1) Theoretical research which focuses on the analyses of hypotheses using assumed economic relationships; 2) Empirical (applied) research which extends the testing of hypotheses to the use of historical data and statistical methodologies; and 3) Descriptive research which organizes and disseminates data while drawing general inferences from the results.
Theoretical and empirical papers are often more highly regarded by the academic community and, consequently, have a much larger number of publication possibilities. Descriptive research efforts are usually regarded as informative yet inconclusive presentations.

Existing research in the small business areas has been basically confined to the descriptive form. This is especially true in the SBA Regions. Theoretical and empirical tests regarding regional firms are very difficult to locate, and are often based upon outdated or non-standardized information. Federal efforts, however, have resulted in improved theoretical/empirical research tests on the national level. Bringing the national economic analysis emphasis to the regions of interest within the SBA has yet to be accomplished.

We hypothesize that the probable cause of this inadequacy in regional research efforts is based upon the following factors:

a) inadequate data bases
b) low motivation for small business researchers
c) inadequate publication outlets
d) lack of recognition of importance of small business as an economic entity

INADEQUATE DATA BASES

Successful economic research must have an adequate data base. Adequacy requires both timely and accurate information. At this stage of development, interests in small business research are not sufficient to result in the creation of a data base which encourages empirical testing of hypotheses. Once such a data base has been created, research interests will expand to approach the needs of the small business area.

LOW MOTIVATION FOR SMALL BUSINESS RESEARCHERS

Outside of financial considerations, the primary motivations for research efforts are varied. Most analyses are based upon the desire to produce quality writing which will be accepted by quality publications and institutions. Other than the aforementioned journals and a small number of trade/government publications, little motivation exists for committing resources to small business research on a regional level. Given the inadequacy of data bases and the difficulties of obtaining funding and financial
support, the prospects of theoretical or empirical research are small. Descriptive research, however, is more easily justified by governmental authorities; and efforts such as the White House Conference on Small Business and the SBA's research papers on the status of Small Business provide encouragement that the future will produce greater emphasis on small business as a valuable research opportunity.

INADEQUATE PUBLICATION OUTLETS

The *Journal of Small Business Management* and the *American Journal of Small Business* provide the primary outlets for research contributions within the small business area. An examination of other major journals of business and economies indicates that very few have accepted any papers which emphasize the conditions of small business in the United States. Where publications are available, the topics are usually narrow, national in scope and questionably small business oriented.

The private publications of trade associations within Region III are probably the best outlets for the current small business research being produced. The advent of more adequate/numerous research on small business requires the earlier development of more acceptable research outlets on regional and national levels.

RECOGNITION OF SMALL BUSINESS AS AN ECONOMIC ENTITY

While over 43 percent of the total gross national product and 58 percent of the total employment of the United States can be attributed to small businesses, recognition of the impact of this unit of our economy is difficult to observe. Research emphasis has been placed primarily on macroeconomic areas, ignoring the importance of small business as a key aspect of macroeconomic change. The NFIB has indicated, through our survey, that "small business as a macroeconomic phenomenon" is a major part of their research emphasis. Creating this interest/attitude among the researchers of Region III would lead to the reduction of current research/data base insufficiencies.
OVERVIEW

Although areas of future research needs can be established, the problems listed above will decrease the probability of improvements in the area of small business research if they are allowed to continue.

Many of the impediments to research on Region III firms are being removed or at least attenuated. First, the SBA and Department of Commerce are working together to acquire a centralized data base. Second, and perhaps most important, the importance of small business to the overall economic health of America is beginning to be recognized. This can be easily seen by the interest and enthusiasm surrounding the upcoming Conference on Small Business, and the legislative support given to small business over the last few years. Third, with an adequate data base and the known importance of the small business area, researchers will have a higher level of motivation to investigate suggested research topics.

PROPOSED DATA BASE CREATION

The shortage of a comprehensive, standarized small business data base is widely recognized, but effective action to remedy the problem has only recently been initiated. The Small Business Administration and the Department of Commerce are jointly studying the possibility of acquiring a comprehensive and standarized data base. This file may be a private data base, such as the Dun & Bradstreet file. The important factor that must be considered in the creation of the file is that it be a valid, representative sample of small business in America. It should also include timely data and be readily available to qualified researchers. With this data base, theoretical, empirical and descriptive research projects can be conducted to answer academic and policy questions as well as extend our knowledge of small business. This should ultimately lead to legislation and government policies tuned to the needs of the small business owners and managers.

THE SMALL BUSINESS

The ultimate benefactor and uses of the recommended research and data bases are the small business owners and managers. The present research
studies are published in trade publications, the *American Journal of Small Business*, the *Journal of Small Business Management*, certain small business Textbooks and government publications, such as: The SBA's numerous free and for sale booklets. The federal and state data bases and some private data bases are available to the public at little or no charge. The local college or public library or business research centers often have many of these published research studies and data bases. These and other publications are frequently available in college and public libraries. Also, some chambers of commerce and Small Business Development Centers have a library of Small Business reference material.

The proposed research and standardized data bases should be created so that it is useful to the small business sector as well as to academic and government policymakers. The proposed research and data bases should further the development of management techniques that are useful in a small business. Further, the data should be useful in determining relative financial strength and feasibility studies. By providing standardized economic, market and financial data and research the small business owner or manager or his consultant can test the feasibility of market or financial strategies.
SECTION II

INTRODUCTION

Research and its concomitant data are vitally important — not only so that the quality and vitality of the small business sector can be preserved, but also so that the nation's economy can continue to grow and prosper. Most of the employment growth in Region III has come from very small businesses (less than 21 employees).\(^6\) Further, much of the innovation, represented by new products, patents, and services, has come from small businesses.\(^7\) Finally, over 43 percent of the total gross national product and 58 percent of the total business employment of the United States are directly attributable to the small business sectors.\(^8\) It is crucial, therefore, that public officials and other policymakers of Region III understand this vital and integral sector of the economy. To enhance this understanding of the small business sector, much rigorous research must be accomplished. In order to research topics that concern small businesses, reliable and valid data must be readily available to researchers, whether they have private, public, or academic affiliations.

In this section available research and data will be reviewed, and a series of research topics and improvements to the small business data base will be proposed.

EXISTING RESEARCH

Our survey examines the existing research efforts on small business within Region III. Research emphases within the region are primarily descriptive and government-supported/directed. Other works are usually very specific and guided toward the needs of the immediate user. Here, we summarize the survey results within the general categories of government, state, university and private research.

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The primary research works specific to Region III are produced by the SBA, BEA, OMBE and EDA. These organizations emphasize descriptive statistics on small business which could be used to support policy recommendations in the small business area. Responses from this group noted the need for additional cooperative efforts between research interests in promulgating information relative to SBA Regions.

The OMBE responded to our questionnaire by indicating that developing research on trends and performance characteristics of minority businesses within Region III would lead to a better understanding of the small business sector of the national economy. Another major descriptive research effort relative to Region III is produced by the BEA. This publication is produced quarterly as a means of identifying economic developments within each state and is entitled "State Quarterly Economic Developments." While this work is not directed at the small business sector, several classifications by retail sales and business incorporations/failures provide a reasonable approximation of small business developments within each state.

Other than the specific references from our survey, we acknowledge efforts of the SBA in promoting general research development within Region III, including this paper.

STATE AGENCIES

State agencies currently produce perhaps the largest volume of descriptive statistics which are oriented to regional use. Most of these works are tied to specific state needs and do not provide a uniform series of insights into the small business area per se, but these presentations do indicate the potential of developing a regionally-biased research base.

Our survey results from Maryland, Delaware, Virginia, West Virginia and Pennsylvania show that most research is directed at influencing government (State and National) policy. The Division of Research within the Department of Economic and Community Development of the State of Maryland reported progress primarily in the area of small business bonding and loan portfolios. They suggest the need to investigate small business as a "financing mechanism" within the economy of Region III.
The Division of Economic Development in Delaware and the Department of Agriculture in Pennsylvania reported research efforts in the areas of providing technical assistance, funding and environmental analyses to small businesses within their areas. They also indicated that an outlet for their research was provided in the development/presentation of small business seminars. In addition, these organizations suggested that a primary area for further investigation was the control of federal regulations and the expansion of small business opportunities within Region III.

UNIVERSITIES AND COLLEGES

The business research centers within Region III universities engage in descriptive economic research primarily to provide summaries of economic development within their respective states. In each case, respondents to our questionnaire mentioned "regional planning" as a key motivation for their efforts.

The Bureau of Business Research of West Virginia University noted that their research centered upon tax, travel and market/forecast topics. Users of this information ranged from specific small businesses to government policymakers. Much of their work is directed toward the identification of entrepreneurial characteristics, including their impact on business failures. They also indicate an interest in examining the effectiveness of the Small Business Institute program.

The director of the Pittsburgh Study, University of Pittsburgh, indicates that research efforts are being directed toward industrial development and regional planning topics. Users are primarily government agencies and necessitates the use of descriptive data and inferences specific to each economic area, yet not specific to the small business enterprise.

PRIVATE

The largest group of respondents to our questionnaire was the private sector. This group is composed primarily of trade associations and lending institutions. In each case the emphasis of existing research was upon economic development of an industry or region, yet less emphasis is placed upon the differentiation between small and large businesses.
The NFIB proved to be the greatest single private source of existing research which can be broken down into Region III data. In most cases, however, the resulting subset of information is purely descriptive of the historical trends of small business. Research specific to the needs of small businesses is national in scope, presupposing no meaningful regional biases which would alter the conclusions or recommendations.

The Bank of America produces various publications within its Small Business Reporter series. These reports are the result of the research and experiences of the Bank, yet none are region-specific. Their objective in this effort is to assist the entrepreneur in starting his or her own enterprise.

Other responding banks within the region emphasized the need to develop better lending policies for small businesses. Many suggest that their research efforts are directed at this goal and usually involve historical analyses of loan portfolios as well as interviews and seminars with the small businessperson. They also suggest that research efforts are being conducted to provide the small businessperson with information on local economic trends. This approach is expected to bring about better forecasting by the small business enterprise regarding external funding requirements. Other research efforts are directed at assisting the small businessperson in site locations, market analyses, demand forecasts and tax considerations.

PROPOSED RESEARCH AGENDA

The primary focus of future research on small business is not region-specific. Small business advocates suggest that all such enterprises face the same general problems, as noted by many witnesses in congressional hearings and articles in trade journals and publications. These issues provide a strong and uniform basis for future small business research. A list of these areas includes the following topics:

a) Capital Formation  
b) Management/Control of Inflation  
c) Product Liability  
d) Federal Regulation/Paperwork  
e) Taxation  
f) International Trade  
g) Family Ownership Continuity  
h) Coalition of Small Business  
i) Government Procurement Opportunities  
j) Research and Technology Development
CAPITAL FORMATION

Small business enterprises face a unique set of capital formation problems in financing growth and continuity. They completely lack the potential of accessing many financial alternatives available to larger firms. Government efforts such as the Small Business Investment Act and other attempts to decrease the capital availability problem have been encouraging, yet they are far from adequate. Research efforts are needed to examine existing tax laws, security regulations, the impact of capital shortages upon the small business sector, and subsequently the macro economy of the United States.

INFLATION

The consensus among small business owner/managers is that a study should be undertaken which would indicate the specific effects of inflation on small business. (The National Association of Wholesalers (NAW) has been interested in this study for some time and offers initial assistance in this area). The pervasive effects of inflation over the past five years has had a tremendous impact upon the continuation of small businesses. General techniques for dealing with these problems include monetary and fiscal policies such as reducing capital availability, changing tax laws and federal spending. Each of these measures has immediate impact upon the small business and this impact should be made a part of government policy decisions.

PRODUCT LIABILITY

The national attitude of product liability has reached the point where independent businesspersons are required to assist larger sums of operating capital to secure insurance against adverse litigation. Insurance premiums are increasing and fluctuate widely between industries and geographic areas. Obtaining renewals for these policies is also becoming more difficult each year for most small businesses.
Research efforts should be directed at examining the creation of a uniform product liability law which would provide Federal support via product liability insurance subsidies, state regulations of insurance premiums in this area and better control of manufacturing production processes. Current proposals by the Small Business Legislative Council and the National Association of Wholesaler-Distributors suggest legislation that would allow self-insurance by small businesspersons through the creation of tax-exempt reserve funds. Research efforts should be focused on the continuation of this search for relief from product liability.

FEDERAL REGULATIONS

Estimates for the cost of Federal regulation in all business for 1979 exceed $120 billion. The Commission of Federal Paperwork has suggested that small businesses will pay at least 60 percent of this cost. Obviously, at this rate, independent businesses are not capable of continuing to support the time and financial costs of these requirements.

Research in this area should be directed toward formulating policy recommendations that would force federal agencies to consider the dramatic operating differences between large and small businesses. This should provide relief in the continuance of existing requirements and the development of future requirements.

TAXATION

Although the 1978 Tax Law provided advances for the small business sector, existing regulations do not ordinarily differentiate the small and large

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9 Statement of George A. Seeds, First Vice President, National Association of Wholesaler-Distributors, before the Senate Select Committee on Small Business, Hearing on Small Business Issues and Priorities - 1978, 95th Congress, 2nd Session, p. 4f.

10 Ibid.

11 Ibid.
enterprise. Existing research by such organizations as the American Institute of Certified Public Accountants (AICPA) has emphasized the inherent differences between small and large firms and has recommended several tax allowances, e.g. ordinary loss deductions for direct investors, simplification of rules regarding inventory valuation, allowing employee retirement plan investments in company stock, and tax-deferrals on the sale of the small firm. Future research should extend the work of such organizations to include analysis of tax law changes in the macro economy via the small business sector, and the probable impact of tax allowances on the perpetuation of the small business enterprise.

INTERNATIONAL TRADE

Many small business enterprises would benefit from participation in international trade. Participation could be used to reduce the large trade deficits of the macro economy experiences and thereby assist in stabilization of the U.S. dollar abroad. Dealing in international trade however, creates many uncertainties among new participants. Future research efforts should focus upon the objective of educating small businesspersons regarding the risks and rewards of international trade, including the potential of federal subsidies for concerns accepting the risks of this new marketing practice.

FAMILY OWNERSHIP CONTINUITY

The continuity of family ownership is considered vital to the stability of the small business sector. Primary deterrents to this objective are found in U.S. income and estate tax laws. Research in this area should center upon the recognition of the uniqueness of small business and the subsequent development of more favorable tax requirements, e.g. the enlargement of existing death tax stock redemption proceeds for favorable tax treatment and estate tax installment programs. Should research efforts support these recommendations, policy developments on a national and state level would be forthcoming to support the continuity of family owned small businesses.

12 Report of the Small Business Taxation Subcommittee of the AICPA.
13 See Sood Proposals, Chapter P, Region III SBA Papers, This Volume
COALITION OF SMALL BUSINESS

Given the fact that small businesses produce almost half the GNP of the U.S. and support over half of the total business employment, the development of a unified small business coalition would have a strong impact on government policymaking. Such an organization could be produced by the association of existing national industry organizations. Currently independent lobbying efforts could be consolidated into a more efficient power for shaping general government programs and policies.

Research efforts on this topic should center upon the measurement of the probable impact of such a coalition. Characteristics of small businesspersons and their organizations would need to be profiled in this work prior to describing the post-merged organization and its potential. The resulting specification of the characteristics of an entrepreneur in each industry would be the basis of information which would enhance our understanding of small business as an economic phenomenon.

GOVERNMENT PROCUREMENT

Government efforts have initiated the work in this area. New programs exist which will increase the probability of government contracts being made available and awarded to small businesses. Continuing research efforts should be supported which will produce a more meaningful information system for small businesses to access. Once the appropriate method of disseminating this information is in place, small businesses will be better able to participate in the government procurement market. Additional research in this area should be directed at evaluating other incentives which would encourage greater participation of small businesses in supplying government needs.

RESEARCH AND TECHNOLOGY DEVELOPMENT

Many formal analyses of research and technology developments indicate that the small firm has comparative advantages in the proliferation of inventions. Several studies suggest that the "most important inventions" come from small firms. Publications of this type denote the need

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to continue current research efforts in the evaluation of the research potentials of small business enterprises. Should historical analyses be supported, recommendations would promote the use of small business as a major recipient of research and development awards from the federal government and other organizations.

SMALL BUSINESS LENDING BY BANKS

Mr. Walter P. O'Rourke, General Counsel of the Service Corps of Retired Executives (SCORE) Association, has given the following testimony:

We are still very concerned about the refusal of banks all over the country to entertain applications for loans under 10 thousand dollars on the grounds that the handling is too costly, and the problem too great.

These comments summarize many viewpoints regarding the current lending practices of most banks to small businesses. Research efforts are necessary to produce a more accommodating attitude by banks in providing funds and assistance to the small business sector. This work would also include an examination of the appropriate role of the SBA in the process of applying for small business loans.

EXISTING INFORMATION SOURCES

To gain information about the small businesses in Region III one must contact many different sources, including federal, state, local and private agencies. Unfortunately, the data cannot be easily merged into one file because the definitions of various components differ from one source to another, and the coverage varies. Each of the depositories collect information for a different reason; so it is not surprising that the resultant data are not compatible with other agencies' data files. To understand the data that are available, each agency's data file will be briefly described.

16U.S. Congress, Senate Select Committee on Small Business, Hearing on Small Business Issues and Priorities - 1978. 95th Congress, 2nd Session, Committee Print, p. 83f
FEDERAL GOVERNMENT DATA FILES

The Department of Commerce, the SBA, the Internal Revenue Service (IRS), and the Federal Reserve System all routinely collect information on small businesses. Most of this information is publicly available in the aggregated form. Some of the information can be made publicly available in the disaggregated form if certain identifying characteristics are first removed.

DEPARTMENT OF COMMERCE

The Department of Commerce has three agencies that collect, store and distribute information concerning small business. The BEA publishes the Survey of Current Business and the Business Conditions Digest, plus a series of other booklets and computer tapes listing select industry, regional, national and international statistics. However, these statistics are of limited value in studying small businesses in particular. The Census Bureau publishes numerous demographic publications, such as County Business Patterns, which are extremely helpful for small business planning, but of only limited value in small business research. The OMBE collects minority enterprise data on a monthly, quarterly and semi-annual basis. The minority business data that are collected are the following: census information, failure information and financial information. The OMBE data should be used by researchers to study the unique characteristics of minority business enterprises.

The Department of Commerce publication, State Quarterly Economic Developments, illustrates another problem in doing regional small business studies. The SBA Region III that this paper has reviewed is divided into Mideast Region (Pennsylvania, Maryland, Delaware, Washington, D.C. and other states) and the Southeast Region (West Virginia, Virginia and other southern states).

THE SMALL BUSINESS ADMINISTRATION

The SBA has recently published a series of documents that profile the economic health of the states in Region III. The United States Summary 1979 Economic Profile and the Region III-Philadelphia 1979 Economic Profile are current, to the extent possible, as of September 30, 1978. These publications include a wealth of information about small business and the
SBA that is classified by state and region. These Economic Profiles are the only large source of economic and small business data that is discussed in this paper. The Economic Profiles include the typical economic data, but in addition it lists firms assisted by the SBA with loans, assistances and government procurement set-asides.

THE INTERNAL REVENUE SERVICE

The IRS collects annual financial information from almost all corporations, proprietorships and partnerships in the United States. The data are aggregated and made available in various publications: Statistics of Income: Business Income Tax Returns: Sole Proprietorships, Partnerships, and Statistics of Income: Corporation Income Tax Returns. These two publications are part of the IRS Statistics of Income series and have a lag time, unfortunately, of four or five years. For example, the latest corporate data available are from 1974 income, and the latest sole proprietorship and partnership data are from 1975 income. However, preliminary reports with less information are available with less than a two year lag.

The IRS data cannot be broken down into categories of small business (based on a number of employees criterion). If assets or income are used as the criterion, IRS data can be used. The IRS uses, although not that rigorously, the Standard Industrial Classification system to identify the principal business activity and principal product or service of the firm. Thus, the IRS aggregated data can be used as a reliability and validity cross check against more detailed, but less comprehensive data files of other agencies.

The IRS is presently attempting to find a means of disclosing more detailed information without disclosing the identity of the taxpayer. This raw data will be extremely useful to researchers investigating various topics, including the impact of a particular tax or exemption on a small business.

STATE AND LOCAL GOVERNMENT

Each of the Region III states has a business data base that includes small businesses. These data bases are developed from state tax returns, business licences and incorporation applications. Most of the states and many of the countries have industrial development offices that attempt to
influence growth in the state. These offices often maintain much
economic, demographic and climatic data that might be useful in encouraging
a firm to locate in that particular locality. These centers are usually
very helpful in the plant or store location decision. In addition, West
Virginia has recently established a Small Business Service Unit within the
Governor's Office on Economic and Community Development to assist small
businesses within the state. The Lt. Governor of Pennsylvania chairs the
Governor's Small Business Committee to monitor needs and assess state
programs designed to serve small business.

The state's data bases are typically very useful to the business-
person's site location decision. But unfortunately, the data are not in
a comparable format between the Region's states. Pennsylvania has
published extensive information concerning plant location, and also has
established an industrial census of manufacturing firms with such vital
statistics as the number of establishments by four digit SIC code, size
and location, employment, wages, capital expenditures, value added by
manufacturers and other pertinent statistics. This type of data collection
is extremely useful in researching the many unanswered questions concerning
small businesses; however, it is geographically limited.

UNIVERSITIES AND COLLEGES

Each of the states within Region III and the District of Columbia
have established university-or college-sponsored business research centers.
Most of their data bases consist of economic statistics, such as employment
personal income, production, retail sales, cost of living, banking and
similar series. Here again, these data bases are extremely useful to the
small businessperson, but not as useful in studying small businesses.

In addition, Region III has 61 of the 470 Small Business Institutes
(SBI). These SBI are sponsored by the Small Business Administration but
run by the faculty and students at the participating universities and
colleges for the benefit of local small business clients. Although their
primary purpose is to provide the small businessperson with management
consulting, many SBI directors are gaining invaluable experience in working
with small business problems.
Another campus unit that is developing small business data bases to aid in its consulting work is the Small Business Development Center (SBDC). There are sixteen SBA funded SBDC's including two in Region III. Howard University in Washington, D.C. and the Wharton School of Finance (University of Pennsylvania). Also in Pennsylvania, three other schools have started SBDC Programs; St. Francis, Lehigh University, and the University of Scranton. These centers represent, in concept, an extension of the partnership between small businesses, higher education, and government. Within the SBDC, the faculty, students and business have much flexibility and freedom to resolve short and long-range problems of small business owners and managers. In that these SBDC's are very recent innovations, it will be interesting to see what research will be accomplished.

Both of the most popular small business journals are published by Region III schools. The Journal of Small Business Management is published by the West Virginia University Bureau of Business Research in cooperation with the International Council for Small Business and the Small Business Institute Director's Association; the American Journal of Small Business is published by the University of Baltimore. These two journals are an excellent source of completed small business research studies.

PRIVATE SOURCES

Some of the best small business data are available from the private sector. First, the local Chambers of Commerce have current listings of many of the small businesses in their area of interest. This information is primarily demographic data without much indication of the size of the firm. It can be used to run both limited studies on a particular locality, and multi-stage research projects in which large and medium sized firms are screened out at the first stage.

The National Federation of Independent Business (NFIB) maintains a computer file on its 550,000 small and independent member firms. The NFIB has found that their sample of member firms fairly reflects the small employer universe. 17

The Federation has published several reports that are extremely useful in gauging the state of small business in America. It recently published the NFIB Fact Book on Small Business and in earlier years it published reports on small business concerns: the economy and the small business sector, statistics of small business employment, the effect of national health insurance on small business, and the problems associated with product liability. 18

The Fact Book and the reports are based on surveys of the NFIB members and secondary data from the federal government. The NFIB has distinguished itself by its assistance to academic researchers in the area of small business. The NFIB has sponsored worthwhile studies and mailed out research questionnaires to a sample of its members. The NFIB controlled the use of the data base to insure the anonymity of its members.

In addition, the NFIB publishes the NFIB Quarterly Economic Report for Small Business. This report summarizes on a quarterly basis the perceptions and beliefs of small businesses on many important issues. This report, like the Fact Book and the special issue reports, is an extremely valuable source of information about a fairly representative sample of small businesses, classified by size, industry and geographical region.

Another very useful and much larger source of information is the data base established by Dun & Bradstreet, Inc. (D & B). Their data base includes financial, historical and demographic information on over three million firms. 19 It is primarily used as a source of information for D & B credit rating service and their directory (Dun & Bradstreet Million Dollar Directory, Dun & Bradstreet Middle Market Directory and Dun & Bradstreet Reference Book). They also list new business starts and certain kinds of business failures.

18 A listing of recent NFIB publications concerning small business can be found in the Bibliography under National Federation of Independent Business.

The D & B tapes are available publicly at several universities and other agencies such as the Massachusetts Institute of Technology.

Industry- and region-specific trade associations have also published for their members much data that are very useful in daily and long-range planning. Often, a trade association will survey its members annually with questions concerning the firm's financial status, number of employees, type of equipment and amount of floor space. This information is very useful for industry's studies but less useful in generalizable small business studies.

DEVELOPMENT OF A UNIVERSAL DATA BASE

In the development of a universal small business data base, several factors must be considered. First, the data must be accurate and representative. That is, the data base does not have to include the small business universe, but rather a representative sample of the population. The data, however, must be accurate to be useful.

Second, the data base definitions must be standard, and accepted by the users of the data. For example, one of the reasons that it is difficult to use the present data bases is the difference in data definitions. The definition of "small business" must be made in a meaningful manner. The distinction between reporting units or establishments and enterprises or firms must be made. The Department of Commerce's County Business Patterns uses establishments which may be multiple outlets of a single enterprise, thus leading to an over-counting of firms. Firms also should be classified by SIC codes rather than arbitrary industry name or number. Finally, a common definition of business terminations must be made. A narrow definition of failure as only a bankruptcy may overlook the true sense of defeat of a small business person when he or she closes the door and liquidates the firm prior to an actual bankruptcy.

Third, the data should be current or recent information. The small business sector is known to be greatly affected by the changing economic conditions. This can be seen by the sector's relationship with current business cycle. Therefore, the data must be timely or the research may be inapplicable.
Fourth, the data should be available publically in an easily accessible format. The data should be maintained on a computer file which can be readily shared with a qualified researcher. 21

The Office of Advocacy of the SBA has recommended that the SBA acquire Dun & Bradstreet's file for small business research and Dr. Naidn has recommended that a committee should be formed to study priorities of the type of data that are needed and the source of those data to form a unified data file. Other experts have recommended steps be taken to improve present data bases.

It is our recommendation that one federal agency accept the responsibility of developing a comprehensive, standardized small business data base that would be available to qualified researchers. It is realized that several barriers, such as the question of who should collect the data and in what format, would have to be overcome; but the major drawback to any government initiative such as this is how the project is perceived by the small businessperson. A data base that is not at least partially supported by the present public and private data sources may be resented by the small business community. An extensive government request for data from the small businessperson would probably be viewed as just one more government form to be completed. At least one Region III state economic development director had to cancel the state's plan for developing a census of retail and service shops in that state because of the adverse reaction of the small business community.

Our summary revealed the need for the following regional data that are not either presently available or statistically consistent:

1) Failure data
2) Financial information on private firms
3) Small business trade and service data
4) Government procurement set-asides data

These data needs were suggested by more than one respondent. The respondent often suggested that some of the above data are available but not in a consistent or statistically sound form.

21 Detailed recommendations for a centralized data base can be found in Naidn, "Vital Statistics" and the Office of Advocacy of the SBA, Study of Small Business, pp. 3-9.
SECTON III

METHODOLOGY

The objective of this study emphasized the description of existing and proposed research and data bases in Region III. We obtained information from many sources in order to attain this objective. The primary source, however, which provided information specific to Region III was obtained using a survey or questionnaire approach.

After compiling a list of over 116 primary sources of research and data information, we constructed a survey instrument which would provide initial indications of existing and proposed research and data base developments. We received 55 replies, denoting the complexity of the small business development problem. This information was used as the directing force of our work, leading to the examination of both government and academic/public documents.

The combination of survey information and existing literature provided a reasonable profile of current research and data base developments within Region III. Both sources indicate that research and data efforts are being undertaken and are gaining importance in the activities of government agencies, academic researchers and private associations. The next step in the examination of region-specific efforts should be directed at providing a more detailed analysis of the general findings of this initial presentation.
SECTION IV

BIBLIOGRAPHY


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