Winter 2001

Small Businesses in Upstate New York Rank Barriers to Growth

In 1997, small businesses with fewer than 100 workers accounted for almost 38 percent of all U.S. employment. Indeed, evidence suggests that small firms now create more new jobs than their larger counterparts do. In addition, small businesses appear to play two crucial roles in the American economy: incubators of new ideas that spark technological change and productivity growth, and providers of first-rung access to the mainstream economy for millions of minority, women, and immigrant entrepreneurs.

The ability of small firms to generate jobs takes on added significance in upstate New York, where large employers such as General Electric, Kodak, and IBM have made deep cuts in their workforces. Recognizing the growing importance of small firms to the U.S. economy and, specifically, to the upstate New York economy, the Buffalo Branch of the Federal Reserve Bank of New York and the Center for Governmental Research (CGR) recently surveyed small businesses in western and central New York State. The object of the survey was to identify what small business owners perceive to be the chief barriers to the growth of their companies.

Barriers to Growth

Respondents evaluated twenty-four potential barriers to the growth of their companies on a seven-point scale, with one point indicating “not a barrier” and seven points indicating a “significant barrier.” For the purpose of analysis, we interpret a barrier to growth to be “significant” if it is given a six- or seven-point ranking. Chart 1 shows the ten most significant barriers to growth, according to the 2000 Buffalo Branch-CGR survey. The table shows the rankings from two other surveys of small firms. One survey, “2000 Problems and Priorities Survey,” was conducted nationwide in July 2000 by the National Federation of Independent Businesses (NFIB). The other survey, “Barriers to Small Business Growth in New York State: A Barometer of Opinion,” was conducted statewide in November 1998 by the CGR. While these two studies and the 2000 Buffalo Branch-CGR survey vary somewhat in methodology, together they allow us to compare and contrast the opinions of small business owners in different areas and time periods.

As shown in Chart 1, the 2000 Buffalo Branch-CGR survey finds health insurance premiums to be the foremost concern among small business owners in upstate New York, with 62 percent of the respondents citing this as a significant barrier to growth. Health insurance premiums rank high in the 2000 NFIB and 1998 CGR surveys as well, suggesting that the rising cost of worker health insurance is placing a burden on small firms nationwide. Respondents to all three surveys also express similar concern about federal and state income taxes.

Responses regarding two other nonwage labor costs—workers’ compensation and unemployment insurance—differ across the surveys. Both are significant barriers according to about half of the respondents in the 2000 NFIB and 1998 CGR surveys as well, suggesting that the rising cost of worker health insurance is placing a burden on small firms nationwide. Respondents to all three surveys also express similar concern about federal and state income taxes.

Upcoming Event

Inner-City Economic Development Conference
The Buffalo Branch and University at Buffalo will be hosting a conference titled “The Untapped Urban Market” in early Spring 2001. Details will be forthcoming.

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The Regional Economy
OF UPSTATE NEW YORK

Barriers to Growth

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Barriers to Small Business Growth: Rankings from National and Statewide Surveys

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<td>1</td>
<td>Cost of health insurance</td>
<td>Local property taxes</td>
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<td>2</td>
<td>Federal taxes on business income</td>
<td>Health care costs</td>
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<td>3</td>
<td>Locating qualified employees</td>
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<td>10</td>
<td>Cost of natural gas, gasoline, fuel oil</td>
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Note: The 2000 NFIB study sampled 25 percent of the organization’s national membership. Ninety-seven percent of surveyed firms had fewer than 100 employees. The 1998 CGR study surveyed a representative sample of New York State firms with fewer than 100 employees.

might in part reflect the fact that such regulations affect only certain types of businesses. For example, environmental regulations are very important to a dry cleaner or gas station, but of little consequence to a software firm.

### What Do Small Businesses Like About Upstate New York?

Despite concerns about costs and other barriers, most small businesses continue to operate and thrive in upstate New York. The Buffalo Branch-CGR survey finds that over the past three years, only 22 percent of the respondents have considered relocating outside of New York State, while 35 percent have expanded their operations. When asked why they were at their current location, 54 percent reported that it is where they and their families reside, while 36 percent cite proximity to their

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**Chart 1**
Chief Reported Barriers to Small Business Growth in Western and Central New York State

**Chart 2**
Reasons Cited for Current Business Location
customers (Chart 2). These results are closely tied to the nature of the very small businesses that dominate the survey. Many of these businesses (e.g. restaurants, automobile repair shops, and laundries) are homegrown family operations that provide services to their local markets.

A number of the surveyed businesses, however, export goods and services outside their local areas. For these firms to be successful and grow, they must rely on indigenous advantages that allow them to compete favorably with firms in other regions. Two such assets rank high among small business owners. First, 27 percent of the respondents pointed to the quality of life as a primary reason for locating their businesses in the region. An area’s quality of life is seen as an important factor in attracting qualified workers. Although the stagnant population growth of the twenty-county upstate region seems at odds with the favorable perceptions of the surveyed small business owners, it is consistent with anecdotal reports of people who have moved away to find employment but desire to return to upstate New York. Second, 24 percent of owners like the low rents and property costs of their current settings. For the small firms participating in the survey, low property costs are clearly one advantage of operating in upstate New York.

**Conclusion**

Small business is an important component of the upstate economy. If the region is to continue to produce new jobs, small firms will play a vital role. Consequently, it is critical to understand and confront the factors that are perceived as impeding the start-up and sustainability of such firms. At the same time, we should recognize and capitalize on the assets that allow small businesses to succeed.

Results from the Buffalo Branch-CGR survey suggest that small businesses in western and central New York State face challenges similar to those confronting small businesses nationwide. According to survey respondents, the most significant barrier to the growth of their companies is the cost of employee health insurance. Other nonwage worker costs, such as workers’ compensation and unemployment insurance, as well as energy costs and state and federal taxes, are also reported to be obstacles. However, environmental and health regulations rank low among the concerns of surveyed small business owners. Small firms also cite the advantages of their upstate New York locations, including low property costs and a good quality of life.

**Access to Capital and Credit**

One area of concern to the Federal Reserve is access to credit and capital. Thirty-four percent of small business owners identify difficulty in raising capital as a significant barrier to the growth of their firms. When asked about the difficulty of obtaining credit from different sources and for different purposes, thirty-seven percent of firms report difficulty in obtaining financing for technology-related investment, while 43 percent have had difficulty with export financing (chart 3). Also noted are the 52 percent who report difficulty in accessing venture and “angel” capital (venture capital from an individual investor).

In most instances, minority, women and non-minority owners report similar levels of concern about individual barriers to growth. Opinions diverge, however, in the case of access to traditional financing. As chart 4 indicates, 34 percent of non-minority-owned firms note difficulty in this area, while 44 percent of woman-owned and 48 percent of minority-owned businesses report difficulty in obtaining credit from traditional sources. These findings are consistent with some past studies conducted by the Federal Reserve System.5
Richard Deitz and Ramon Garcia

The views expressed in this newsletter are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.