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**Small Business Capital Access Study
for the Cleveland Area**

Summary Outline of Findings

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Small Business Capital Access Study for the Cleveland Area

Summary Outline of Findings

A. National Trends

- **Small businesses offer a counter-cyclical stabilizing force to local economies.** In both the Cleveland and Milwaukee metropolitan areas, researchers found that small firms grow faster than larger establishments during downturns. On the other hand, during 1983-1987 expansion, researchers in Milwaukee found that establishments employing between 100 to 249 workers achieved the highest absolute job growth of all establishments.¹
- **Metropolitan employment growth depends primarily upon the start-up of new firms and the expansion of existing businesses.** Job destruction, through closures and contractions, is fairly uniform across regions, whereas the rate of job creation varies proportionately with net employment change.
- **Most small businesses start small and stay small.** A researcher at the Dunn & Bradstreet Corporation found among the 245,000 businesses that started up in 1985, 735 firms, or just 0.3 percent of the total number of start-ups, accounted for 75 percent of the employment gains made by 1988.²
- **Small businesses account for a modest share of an area's economic base.** Areas grow through the expansion of their economic base which is comprised of businesses that sell their goods or services to customers outside the region. In general, small businesses serve local customers and, thus, represent a small share of an area's economic base.

¹See Randall W. Eberts, "Components of Employment Change in Cleveland" *REI Review*, Vol. 2, No.1. pp. 3-12. and Sammis B. White and Jeffrey D. Osterman, "Is Employment Growth Really Coming from Small Establishments?" *Economic Development Quarterly*, Vol. 5, No. 3 August 1991, pp. 241-257.

²Douglas Handler, "Business Demographics," Economic Analysis Department, Dun & Bradstreet Corp. N.Y. 1989 as reported in Bennett Harrison's "The Myth of Small Firms as the Predominant Job Generators" *Economic Development Quarterly*, Vol. 8 No.1, February, 1994, pp. 3-18.

- **Entrepreneurs do not move to a new area to start their businesses.** In surveys conducted in Minnesota and Pennsylvania that contracted more than 2,600 small businesses, not one respondent revealed that he/she moved to a new location to start a new business.³
- **Small businesses pay lower wages, offer fewer benefits and are less stable than larger firms but offer greater job satisfaction, on average, than wage and salary employment.**⁴
- **The national profile of the small business owner is a white male between the age of 25 to 40 years who has substantial industrial experience.** All things being equal, men with greater assets are more likely to become self-employed than men with fewer financial resources, suggesting possible financial constraints.⁵

³Paul Reynolds, "New Firms" *Commentary*, Summer 1989, pp.4-11.

⁴John F. Zipp, "The Quality of Jobs in Small Business" *Economic Development Quarterly* Vol. 5, No. 1 February 1991 pp. 9-22.

⁵See Reynolds, *ibid* and David S. Evans and Linda S. Leighton, "Some Empirical Aspects of Entrepreneurship" *American Economic Review* June, 1989, pp. 518-543.

B. Findings for the Cleveland Area

- **Trend analysis:**

- **Establishments employing fewer than 20 workers generated all net new jobs in the Cleveland Metropolitan Statistical Area (MSA) from 1989 to 1992.** This is not too surprising since during this period, the national economy was moving from a peak to a trough in the business recession. As cited above, during this phase of the business cycle, small businesses tend to outperform their larger counterparts.
- **From 1989 to 1992, total employment growth in the Cleveland MSA was below average, relative to a comparison group of metropolitan areas, that included Buffalo, Charlotte, Chicago, Cincinnati, Detroit, Milwaukee, Minneapolis, Pittsburgh, and St. Louis.** Moreover, Cleveland's subpar performance was due, in large part, to the poor performance of its firms employing fewer than 20 workers. During this period, employment in establishments employing 20 or fewer workers increased by 38.6 percent in the Cleveland MSA, compared to 44.2 percent for the comparison group of MSAs (Chart 1).
- **Net employment growth in Cleveland MSA's small establishments was below average due solely to the limited number of new jobs gained through start-ups or firms moving into the area.** As shown in Chart 1, Cleveland's employment growth due to expansions, as a percent of its 1989 base, nearly matched the average for the comparison metropolitan areas. Moreover, Cleveland witnessed a lower percentage decline in employment in small establishments due to closures and the same percentage decline due to contractions relative to the comparison cities. However, employment growth in the Cleveland MSA due to the start-up of small establishments rose only 39.3 percent which was substantially below the 44.2 percent gain recorded, on average, in the comparison areas.
- **Among the nine comparison MSAs, the Cleveland MSA:**
 - ranked third in terms of the least employment lost due to closures;
 - ranked fifth in terms of employment growth due to expansions;
 - ranked sixth in terms of the least employment lost due to contractions;
 - ranked seventh in overall job growth among firms employing 20 or fewer workers; and
 - *ranked ninth in terms of employment growth due to start-ups.*

Chart 1
Components of Employment Change in Small Establishments
Employing 20 or Fewer Workers, 1989-1992
 (percent of 1989 base)

	Total Change	Start-ups	Expansions	Closures	Contractions
CLEVELAND	38.6	39.3	30.0	-16.6	-14.1
Comparison Group Averag	44.2	46.3	30.6	-18.6	-14.1

*Comparison group includes Buffalo, Charlotte, Chicago, Cincinnati, Detroit, Milwaukee, Minneapolis, Pittsburgh and St. Louis.

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- **An industrial analysis, as shown on Chart 2, revealed that relative to the nine comparison areas, Cleveland's:**
 - Small, nondurable goods-producing manufacturers (employing 20 or fewer workers) generated only a 27.3 percent increase in employment from 1989 to 1992 *due to start-ups*, compared to a 56.0 percent for the comparison areas ranking it last among the comparison areas where data were available.
 - Employment among Cleveland's small, finance, insurance and real estate establishments increased 37.6 percent *due to start-ups*, compared to an average 65.0 percent increase in the comparison areas, ranking the Cleveland MSA last among the comparison areas.
 - Employment in small, service establishments rose 40.5 percent in the Cleveland area from 1989 to 1992 *due to start-ups*, compared to a larger 52.9 percent, on average, in the comparison areas, ranking it last again.

Chart 2
Industry Employment Growth Due to Start-Ups
1989-1992
 (percent of 1989 base)

	Cleveland	Average of Comparison Area *	Cleveland Ranking
Durable Goods	34.3	35.6	6
Nondurable Goods	27.3	56.0	**
Wholesale	28.5	28.7	5
Retail	49.8	48.1	4
Finance, Insurance, Real Estate	37.6	65.0	9
Services	40.5	52.9	9

*Comparison group includes Buffalo, Charlotte, Chicago, Cincinnati, Detroit, Milwaukee, Minneapolis, Pittsburgh and St. Louis.

**Not available due to disclosure limitations.

- **Small business performance, 1992-1997** (*Based on a survey of 590 small business owners in the Cleveland area*):

- From 1992 to 1997, employment in the 590 surveyed small businesses (employing 100 or fewer workers) grew 33 percent (Chart 3). During the same time period, the number of employed residents in the four-county area of Cuyahoga, Geauga, Lake and Medina declined by 4.7 percent.⁶
- Employment in small businesses located outside of the City of Cleveland grew 42 percent during the five-year period, while employment in small businesses sited inside the city grew 25.9 percent.
- The fastest growing 5 percent of the surveyed small businesses accounted for 50.2 percent of the total job growth. The top 10 percent fastest growing firms accounted for 74.7 percent of the total employment growth in the sample.
- The surveyed top performers were spread across all industries and all ages of firms.

⁶A better comparison statistic would be the percentage growth in the area's wage and salary workers during the five-year period; however, boundaries changes (Lorain and Ashtabula Counties were added to the Cleveland MSA in 1993) make such a comparison impossible.

Chart 3
Employment Growth of Surveyed Businesses
Employing Less Than 100 Workers in 1997

	Employment 1997	Employment 1992	Total Change	Percent Change	Top 5% Employment Growth	Percent of Total	Top 10% Employment Growth	Percent of Total
INDUSTRY								
Manufacturing	3,025	2,417	608	25.2%	275	45.2%	447	73.5%
Retail	1,208	939	269	28.6%	143	53.2%	213	79.2%
Services	2,007	1,419	588	41.4%	268	45.6%	386	65.6%
Other	1,004	671	333	49.6%	160	48.0%	224	67.3%
Total	7,244	5,446	1,798	33.0%	903	50.2%	1344	74.7%
LOCATION								
Cleveland	3,825	3,038	787	25.9%**				
Outside	3,419	2,408	1,011	42.0%**				

**Significant difference at the 1% level.

- **Profile of small business owners in the Cleveland area (*Based on a survey of 590 small business owners*)**
 - **The average age of surveyed business owners when they started their business was 37 years (Chart 4).**
 - **The average residency of a Cleveland area small business owner is 41 years.**
 - **Less than 5 percent of surveyed small business owners are minorities, compared to 10.9 percent of the area's wage and salary workers in 1990. Females accounted for 18.3 percent of the surveyed small business owners, compared to 47.6 percent of the area's wage and salary workers in 1990.**
 - **Small business owners, on average, are better educated than wage and salary workers. Of the surveyed small business owners, 52.6 percent have four or more years of college, while only 18.1 percent have a high school diploma or less. In 1990, 22.1 percent of the Cleveland area wage and salary workers earned a four-year college degree or more and 48.0 percent had only a high school diploma or less.**
 - **Small business owners like what they are doing because, on average, they would require an annual salary of over \$300,000 to work for someone else.**
- **Statistically, the demographic and education characteristics of the owners of the top performing firms, in terms of employment growth, are no different than the other 90 percent of the firms surveyed. Although:**
 - **7.3 percent of the top performers were either black, Asian or Hispanics compared to only 4.3 percent of the lower 90 percent of the firms surveyed.**
 - **Only 14.0 percent of the owners of the top performing firms were female compared to 18.8 percent for the remaining 90 percent.**
 - **A higher percentage of the top performers obtained a graduate degree, but a higher percentage also did not complete high school than in the lower 90 percent.**
- **Of the surveyed small business owners, 86.4 percent had previous industry experience and 44.5 percent previously owned or managed a business. The top performers have slightly less industry experience and more management experience than the remaining 90 percent, but the differences were not statistically significant (Chart 5).**

Chart 4
Demographic Characteristics of Small Business Owners
Employing Less Than 100 Workers

	Total	Remaining 90 Percent	Top 10 Percent Performers+
Demographics			
Age	50	50	50
Average starting age	37	37	35
Females percent	18.3%	18.8%	14.0%
Minorities percent	4.8%	4.3%	7.3%
Years of Residency	41	42	39
Education (percent responding)			
Less than high school	2.8%	2.5%	5.1%
High school diploma	15.3%	15.5%	13.6%
Technical certificate	4.5%	4.7%	3.4%
Associate Degree	3.8%	3.9%	3.4%
Some college	21.0%	21.1%	20.3%
Bachelor Degree	31.0%	31.2%	28.8%
Graduate Degree	21.6%	21.1%	25.4%
Opportunity Cost	\$311,000	\$305,000	\$369,000

+ Top performers in terms of employment growth 1992-1997.

* The annual salary required for the small business owner to work for someone else.

Chart 5
Previous Experience of Small Business Owners
(percent responding)

	Previous Experience in Industry	Previously Owned/Managed A Business	Was Once Laid off	Accepted Early Retirement	Previously Attempted to Start a Business
Top 10 percent	78.4%	51.0%	5.9%	5.9%	3.9%
Remaining 90 percent	87.3%	43.8%	8.8%	3.7%	5.5%
INDUSTRY					
Manufacturing	69.8%	38.5%	4.7%	3.6%	4.1%
Retail	72.2%	51.3%	10.4%	2.6%	5.2%
Services	77.3%	33.2%	6.8%	3.5%	4.4%
Other	79.2%	33.8%	10.4%	3.9%	5.2%
Total	86.4%	44.5%	8.5%	3.9%	5.3%
LOCATION					
Cleveland	87.0%	45.6%	9.2%	2.5%	5.4%
Outside	85.9%	43.5%	7.8%	5.2%	5.2%

- **Market area**

- **Overall, 63 percent of the surveyed small firms sell to the local market (NE Ohio); 24 percent sell to national and/or international markets (Chart 6).** This result supports national findings which suggest that for the most part, small businesses are not a part of an area's economic base. The top performers were more concentrated in the larger markets: the Great Lake States and the national/global markets.

- **Starting the business**

- **Of surveyed firms, 59 percent were started by the owner and 21.6 percent were purchased from a previous owner (Chart 7).** Under 15 percent of the surveyed owners acquired the business from a family member. The top performers were statistically no different from other firms in the way they acquired their business; although, a lower percentage of the top performers started the business or acquired it from a family member.
- **There is a statistical difference between Cleveland and its surrounding area in terms of the way entrepreneurs acquired their businesses.** In Cleveland a lower share, 52.6 percent, of the owners started their enterprise than outside the city, 64.7 percent; and a higher percentage, 25.5 percent, purchased the business from a previous owner, compared to 18.1 percent outside the city.
- **Not surprisingly, most small businesses are capitalized through personal savings.** Overall, 84.7 percent of the surveyed businesses were financed, in part, through personal savings and/or tapping into the equity accumulated in the owner's home through a second mortgage (Chart 8). In addition, 22.2 percent obtained a bank loan, 19.7 percent obtained funds from friends and/or family, and 18.5 percent obtain financing through the previous owner.
- **The sole statistically significant difference between the top performers and the remaining 90 percent of the firms surveyed, in terms of financing the business, was that a higher percentage of the top performers obtained bank financing, 37.3 percent, compared to 20.4 percent.** However, the causality is unclear as to whether these businesses were successful because, in part, they received bank financing or that commercial loan officers were able to pick successful firms.
- **Not surprisingly, since Cleveland's small business owners are more likely to purchase a business, more obtain financing from the previous owner than small businesses outside the city.**

Chart 6
Market Area of Small Business Owners in the Cleveland Area
(percent responding)

	Three Mile Radius	County	Northeast Ohio	Ohio	Great Lake States	National/ Global	Total
Top 10 percent	6.8%	10.2%	23.7%	8.5%	13.6%*	37.3%*	100.0%
Remaining 90 percent	13.9%	17.7%	33.7%	7.0%	5.1%*	22.5%*	100.0%
INDUSTRY							
Manufacturing	1.8%	7.7%	26.0%	8.3%	11.2%	45.0%	100.0%
Retail	31.6%	20.2%	34.2%	3.5%	1.8%	8.8%	100.0%
Services	15.1%	23.6%	33.3%	8.9%	4.4%	14.7%	100.0%
Other	5.3%	13.2%	43.4%	5.3%	5.3%	27.6%	100.0%
Total	13.2%	17.0%	32.7%	7.2%	6.0%	24.0%	100.0%

Nearly 63 percent of all surveyed businesses serve only northeast Ohio.

*Significant difference at the 5% level.

Chart 7
How Was the Business Started?
(percent responding)

	Started by Surveyed Owner	Purchased from Previous Owner	Took Over Business from Family	Owner Assigned by Company	Other	Total
Top 10 percent	55.9%	28.8%	13.6%	0.0%	1.7%	100.0%
Remaining 90 percent	59.4%	20.8%	14.5%	1.3%	4.0%	100.0%
INDUSTRY						
Manufacturing	48.5%	29.9%	18.0%	0.6%	3.0%	100.0%
Retail	49.1%	29.8%	16.7%	1.8%	2.6%	100.0%
Services	67.8%	13.2%	12.8%	1.3%	4.8%	100.0%
Other	70.7%	16.0%	8.0%	1.3%	4.0%	100.0%
Total	59.0%	21.6%	14.4%	1.2%	3.8%	100.0%
LOCATION						
Cleveland	52.6%*	25.5%*	16.8%	0.7%	4.4%	100.0%
Outside	64.7%*	18.1%*	12.3%	1.6%	3.2%	100.0%

*Significant difference at the 5% level.

Chart 8
How Was the Business Financed?
(percent responding)

	Personal Savings	Previous Owner	Second Mortgage	Credit Cards	Friends & Family	Bank	Investor	Govt Loan
Top 10 percent	66.1%	20.3%	22.0%	13.6%	18.6%	37.3%*	10.2%	6.8%
Remaining 90 percent	67.8%	18.3%	16.5%	11.4%	19.8%	20.4%*	8.1%	3.7%
INDUSTRY								
Manufacturing	67.5%	25.2%	14.7%	7.4%	20.9%	31.9%	11.7%	5.5%
Retail	68.8%	23.2%	22.3%	11.6%	19.5%	21.4%	7.1%	3.6%
Services	66.2%	12.8%	14.6%	13.2%	17.4%	16.4%	6.8%	4.1%
Other	70.3%	13.5%	21.6%	16.2%	24.3%	18.9%	6.8%	1.4%
Total	67.6%	18.5%	17.1%	11.6%	19.7%	22.2%	8.3%	4.0%
LOCATION								
Cleveland	64.7%	22.9%*	15.8%	10.5%	19.9%	22.6%	10.2%	3.8%
Outside	70.2%	14.6%*	18.2%	12.6%	19.5%	21.9%	6.6%	4.3%

*Significant difference at the 5% level.

- **Government financing**
 - **Of the surveyed small businesses, 72 businesses, 12.2 percent, sought government financing, and of those 50 percent were approved.**
 - **For those that did not use government financing (Chart 9):**
 - 55.7 percent either did not know about the programs or did not know whom to call.
 - Approximately 30 percent did not need the assistance according to the written responses submitted by the surveyed owners under "other".
 - 24.3 percent had heard that the paperwork was excessive.
 - 20.2 percent thought that the processing time was too long.
 - There was no statistical significant difference between the top performers and the remaining firms, nor between businesses located in Cleveland or outside the city's boundaries.

Chart 9
Why Government Financing Was Not Considered
(percent responding who did not consider applying for a government loan)

	Didn't know about it	Didn't know whom to contact	Excessive paperwork expected	Process time too long	Advised against using it	Other
Top 10 percent	31.7%	17.1%	34.1%	19.5%	0.0%	29.3%
Remaining 90 percent	37.8%	18.6%	23.4%	20.2%	3.6%	35.7%
INDUSTRY						
Manufacturing	24.8%	14.9%	38.8%	29.8%	3.3%	33.9%
Retail	40.7%	19.8%	19.8%	17.4%	7.0%	32.6%
Services	40.0%	19.5%	17.8%	15.7%	1.6%	39.5%
Other	48.4%	20.3%	21.9%	18.8%	3.1%	28.1%
Total	37.3%	18.4%	24.3%	20.2%	3.3%	35.1%
LOCATION						
Cleveland	35.5%	15.4%	25.7%	21.5%	4.7%	35.0%
Outside	38.8%	21.1%	23.1%	19.0%	2.1%	35.1%

Most of the "other" respondents wrote that they simply did not need to use the programs.

- **Obstacles facing small business owners when starting a business:**
 - **In addition to surveying 590 firms, the Upjohn Institute and the Greater Cleveland Growth Association also conducted three focus groups of area service providers and personally interviewed other small business service providers. Obstacles identified in these efforts included:**
 - General lack of business/ management experience or knowledge by individuals desiring to start a new business.
 - Government regulations and paperwork that can impede small businesses from growing.
 - Difficulty in obtaining the necessary collateral for a small business loan.
 - Banks' lack of interest in doing small business loans.
 - Lack of business assistance services at neighborhood locations and during convenient hours e.g. evenings and weekends.
 - **The major obstacles facing start-ups identified by surveyed small businesses are presented in Chart 10:**
 - **The inability of finding qualified workers** was cited by 22.3 percent of surveyed firms as a major obstacle. The area's top performers especially noted this as a major problem.
 - **Finding acceptable financing:** 20.6 percent. Again, a statistically significant greater percentage of the top performers identified this as a major barrier compared to the remaining 90 percent.
 - **Government regulations;** 13.6 percent.
 - **Finding a Customer Base:** 12.7 percent.
 - **Staff at the Greater Cleveland Growth Association also interviewed business owners, as well as, individuals unsuccessful in establishing a business and found that the most often cited barriers were the lack of a business plan or business technical assistance.**

Chart 10
Number of Firms Indicating the Following as Major Obstacles When Starting a Business

	Number	Percent Responding		
		Overall Responses	Top Performers	Remaining 90 Percent
Finding Acceptable Financing**	102	20.6%	23.5%	19.7%
Finding Regional Marketing Information	18	3.8%	4.1%	3.7%
Finding National Marketing Information	22	4.9%	4.1%	5.0%
Finding Technical Assistance in Preparing A Business Plan**	37	7.8%	4.1%	8.2%
Government Regulations	65	13.6%	13.7%	13.4%
Developing a Customer Base**	65	12.7%	14.8%	12.3%
Finding Qualified Workers**	115	22.3%	26.4%	21.2%

**Significant difference between the top performers and the remaining 90 percent at the 1% level.

- **Obstacles facing small business owners in operating an existing business:**
 - **The major obstacles facing existing firms identified by the surveyed small businesses are shown in Chart 11 and include:**
 - **The inability of finding qualified workers** was listed by 28.9 percent of surveyed firms listed as a major obstacle in operating their business. There was a strong statistically significant difference between the top performers and the remaining 90 percent of the surveyed firms in the response to this question. Over one-third of the top performers cited the lack of qualified workers as a major barrier to growth, compared to 28.3 percent for the remaining firms.
 - **Government regulations:** 19.1 percent. Again a statistically greater number of the surveyed top-performers cited this as a major obstacle, 27.8 percent, compared to 18.0 percent for other businesses.
 - **Finding acceptable financing:** 13.3 percent. The responses to this question were also statistically different between the top-performers and the other firms; however, in this instance, a far fewer top-performers complained that this was an obstacle. Only 5.3 percent of the top-performers identified this as a barrier compared to 14.3 percent of the remaining firms.

Chart 11
Number of Firms Indicating the Following as Major Obstacles in Operating a Business

	Number	Percent Responding		
		Overall Responses	Top Performers	Remaining 90 Percent
Finding Acceptable Financing**	67	13.3%	5.3%	14.3%
Finding Regional Marketing Information	12	2.4%	3.6%	2.3%
Finding National Marketing Information	12	2.5%	1.9%	2.6%
Finding Technical Assistance in Preparing A Business Plan	22	4.6%	1.9%	4.9%
Government Regulations**	93	19.1%	27.8%	18.0%
Developing a Customer Base**	34	6.6%	8.8%	6.3%
Finding Qualified Workers**	154	28.9%	34.5%	28.3%

**Significant difference between the top performers and the remaining 90 percent at 1% level.

- **Identified programs or services that could help small business owners and entrepreneurs.**
 - **Programs identified by nonprofit assistance, bankers, and professional service providers during focus group sessions and personal interviews were:**
 - Provide training to entrepreneurs to understand financing options and financial statements.
 - Establish a clearinghouse for loan programs.
 - Educate borrowers in basic business skills.
 - Encourage greater use of SBA/micro-loan programs.
 - Encourage bankers to approve small loans.
 - **Programs identified by surveyed small business owners as shown on Chart 12 include:**
 - **Financial assistance programs** offering either market-rate loans with minimal collateral requirements and/or low-market rate loans with standard collateral requirements were cited by over 30 percent of the surveyed firms.
 - **The establishment of buyer-seller networks** was identified by 16.7 percent of the surveyed firms.
 - **Informational meetings and programs that provide topical, technical or quality control assistance and information.** These include seminars on key issues/topics affecting small businesses, assistance in developing business/financial plans, market information, and technical and quality control assistance.
- **Programs identified in interviews with business owners and unsuccessful business owners.**
 - **Setting up a mentoring program** which would link the new business owners with owners of established companies.
 - **Assistance in creating a business plan.**

Chart 12
Number of Respondents Who Listed Each of the Following as the Most Beneficial

	Number	Percent Responding		
		Overall Responses	Top Performers	Remaining 90 Percent
Seminars on key Issues/topics affecting small business	78	15.5%	16.4%	15.4%
Assistance in developing a business plan**	71	14.3%	5.8%	15.3%
Market information**	70	13.9%	15.8%	13.6%
Assistance in developing a financial plan	63	12.8%	12.7%	12.8%
Export assistance	23	5.1%	4.0%	5.2%
Market Rate, Low Collateral Loan Program*	149	30.5%	32.1%	30.3%
Low Rate, Standard Collateral Loan Program**	147	30.7%	36.4%	30.0%
Technical and quality control assistance**	31	6.5%	5.7%	6.6%
Buyer-Seller Linkage Program**	82	16.7%	14.3%	17.0%
Government procurement assistance**	55	11.4%	12.7%	11.2%

*Significant difference between the top performers and the remaining 90 percent at the 5% level.

**Significant difference between the top performers and the remaining 90 percent at the 1% level.

- **A statistical comparison of small business owners who identified finding accessible financing as a major obstacle when starting a business with those who did not.**

In Chart 13, the characteristics and experiences of the surveyed small business owners who identified the lack of financial assistance as a major obstacle facing small businesses are compared to those who did not. Examining personal characteristics, there are very few differences between the two groups in terms of average age, length of residency, education achievement, race, or gender. Differences did exist in the following:

- **How they started their business.** Of the individuals who identified the lack of financing as a major barrier, 71.6 percent had started their business from scratch, instead of purchasing it from a related or unrelated person. In contrast, only 56.3 percent of the respondents who did not indicate financing as a problem had started their own business.
- **How they financed their business.** Owners who identified financing as a major barrier to small start-ups were statistically more likely to:
 - have not obtained financing from the previous owner of their business;
 - have taken out a second mortgage
 - have used credit cards;
 - have borrowed from friends and family;
 - have partnered with an outside investor.

This suggests that these options may be the least preferred. Not surprisingly, more of these owners had a commercial loan disapproved, 54.7 percent, compared to 8.6 percent.

Chart 13
Firms that found financing an obstacle when starting a business
(percent responding)

	<u>Obstacle+</u>	<u>Not obstacle</u>		<u>Obstacle+</u>	<u>Not obstacle</u>
NUMBER OF RESPONDENTS	102	488	AGE WHEN STARTING BUSINESS	36	37
LOCATION			HOW WAS THE BUSINESS STARTED?		
Cleveland	52.0	46.1	Started by surveyed owner*	71.6	56.3
TYPE OF BUSINESS			Took over business from family	9.8	15.4
Services	31.4	40.4	Purchased by current owner	17.6	22.5
Retail	24.5	18.4	Owner assigned by company	1.0	1.2
Other	13.7	12.9	Other*	0.0	4.6
Manufacturing	30.4	28.3	PREVIOUS EXPERIENCE OF OWNER		
GEOGRAPHICAL			Previous experience in industry	85.9	86.5
Three miles	10.8	13.7	Previously owned or managed other small business	44.7	44.4
County	15.7	17.2	Laid off	11.8	7.8
NE Ohio	29.4	33.4	Early retirement	3.5	4.0
Ohio	2.9	8.1	Had previously attempted to start a small business**	15.3	3.3
Great Lakes States	9.8	5.2	HOW WAS THE BUSINESS FINANCED?		
National and International	31.4	22.4	Previous owner financing*	11.8	20.8
DEMOGRAPHICS			Personal savings	68.6	67.4
Age	49	50	Second mortgage*	26.5	15
Female Percent	15.2	19.0	Credit cards*	23.5	9.0
Minority Percent	7.9	4.2	Borrowed from friends and family**	32.4	17.0
RESIDENCY (YEARS)	42	41	Banks	23.5	21.9
EDUCATION (PERCENT)			Investor*	13.7	7.1
Less than high school	2.9	2.7	Government Loan	5.9	3.6
High school diploma	15.7	15.2	Other	6.9	7.7
Technical certificate	4.9	4.4	COMMERCIAL LOAN		
Associate Degree	4.9	3.6	Disapproved**	54.7	8.6
Some college	21.6	20.9	Why:		
Master Degree	30.4	31.1	Inadequate collateral	41.4	28.6
Graduate Degree	19.6	22.0	Credit problem	6.9	21.4
			Business plan not acceptable	17.2	14.3
			Insufficient equity	27.6	7.1
			Other	37.9	57.1

+ Respondents who indicated that financing is a major obstacle when starting businesses.

*Significant difference at the 5% level.

**Significant difference at the 1% level.

- **A statistical comparison analysis of survey responses from female small business owners compared to male small business owners.**

Overall, there are several surprising differences between the responses of female and male business owners as shown in Chart 14. First, there are no statistical differences between the two groups regarding how they started their businesses. However, that is where the similarities end.

- Surveved women business owners had statistically greater industrial and managerial experience than their male counterparts, were more likely to have been laid-off and were more likely to have taken early retirement. At the same time, women were significantly less likely to have previously attempted to start a business.
- Women business owners are less likely to acquire commercial bank financing or to partner with an investor than a man. Instead, they are heavier users of credit card to finance their business, a decision which data suggest is due to the lack of other options.
- Still, significantly fewer women business owners cited the lack of acceptable financing as a major barrier to start-ups than men. Similarly, significantly fewer women business owners identified the lack of a customer base or government regulations as barriers than men. Instead, a greater percentage of surveyed women found the lack of marketing information and technical assistance as barriers.
- Overall, a greater percentage of women entrepreneurs believe that informational programs and services would be a greater benefit than their male counterparts..

Chart 14
Analysis of Small Business Owners by Gender
(percent responding)

	<u>Women</u>	<u>Men</u>		<u>Women</u>	<u>Men</u>
NUMBER OF RESPONDENTS	103	463	MAJOR OBSTACLE WHEN STARTING A BUSINESS		
			Finding acceptable financing*	14.6	18.1
HOW WAS THE BUSINESS STARTED?			Finding regional marketing information*	3.9	3.0
Started by surveyed owner	58.4	59.3	Finding national marketing information**	7.8	3.0
Took over business from family	15.8	14.2	Finding technical assistance preparing a business plan**	9.7	5.6
Purchased by current owner	19.8	22.0	Government regulations**	7.8	12.3
Owner assigned by company	0.0	1.5	Developing a customer base**	7.8	12.1
Other	5.9	3.1	Finding qualified workers*	22.9	19.0
			MAJOR OBSTACLE WHEN OPERATING A BUSINESS		
PREVIOUS EXPERIENCE OF OWNER			Finding acceptable financing	10.7	11.7
Previous experience in industry*	88.8	85.8	Finding regional marketing information	1.9	1.9
Previously owned or managed other small business*	51.7	43.1	Finding national marketing information**	3.9	1.5
Laid off**	13.5	7.7	Finding technical assistance preparing a business plan**	4.9	3.5
Early retirement**	5.6	3.7	Government regulations**	7.8	17.9
Had previously attempted to start a business**	2.2	6.2	Developing a customer base**	2.9	6.7
			Finding qualified workers	26.2	26.3
HOW WAS THE BUSINESS FINANCED?			WHICH OF THE FOLLOWING IS MOST BENEFICIAL?		
Previous owner financing	19.2	18.5	Seminars on key issues/topics affecting small business*	16.5	12.5
Personal savings	68.7	67.0	Assistance in developing a business plan*	14.6	11.7
Second mortgage	19.2	16.5	Market information**	16.5	11.0
Credit cards**	19.2	10.0	Assistance in developing a financial plan**	16.5	9.7
Borrowed from friends and family	20.2	20.0	Export assistance**	1.9	4.5
Banks**	14.1	23.2	Market rate, low collateral loan	26.2	25.7
Investor**	6.1	9.1	Low rate, standard collateral loan	22.3	25.7
Government loan*	3.0	4.0	Technical and quality control assistance*	3.9	5.4
Other**	12.1	6.5	Buyer-Seller Linkage Program*	16.5	13.8
			Government procurement assistance	11.7	9.1

*Significant difference at the 5% level.

**Significant difference at the 1% level.

Recommendation: Suggested Task Force Issues:

- 1. Promote the importance of developing a good business plan and establishing management team to individuals interested in starting their own business;**
- 2. Develop a "Clearinghouse" agency that would provide information on existing loan programs;**
- 3. Address the labor issues facing small businesses.** Being able to find and keep quality workers are key elements to the success of a firm. Proper labor resource management techniques including how to effectively interview potential candidates and how to provide a productive environment are very important to the success of firms;
- 4. Offer programs on the management of government regulations and taxation;**
- 5. Initiate neighborhood outreach programs for banking and service providers.** Several service providers, especially in Hispanic and African-American neighborhoods, stressed the point that the business environment in their neighborhoods is different than in other neighborhoods. For example, several argued that local customers are more loyal to neighborhood merchants. Without a solid understanding of the unique characteristics of these communities, it is argued that banks are unable to identify successful business ventures. In addition, several service providers worried that many potential small business owners are intimidated and do not feel "welcomed" by the general environment of downtown Cleveland and other locations outside of their neighborhood. They suggest more small business assistance programs be offered in the city's neighborhoods.
- 6. Develop lower equity/collateral requirement loan instruments especially for working capital.**
- 7. Promote and enhance technical assistance programs for small businesses on key issues.** Examples include assistance in collecting receivables, payroll and bookkeeping, and human resource management.
- 8. Establish a mentorship program that links new entrepreneurs with successful business owners.**