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1990

## 1990 Small Business Survey Report, May 1, 1990

American Institute of Certified Public Accountants. Private Companies Practice Section

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## **Division for CPA Firms**

American Institute of Certified Public Accountants

1211 Avenue of the Americas  
New York, N.Y. 10036-8775  
(212) 575-6200  
Facsimile: (212) 575-3846

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# **1990 Small Business Survey Report**

*by the*

**Private Companies Practice Section**

**American Institute of CPAs**

May 1, 1990

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## EXECUTIVE SUMMARY

In a national survey of small business executives, conducted in conjunction with U.S. Small Business Week (May 6 - 12, 1990), the Private Companies Practice Section (PCPS) of the American Institute of CPAs found that:

- o Financial Climate -- Almost half of the executives surveyed believe that the financial climate for small businesses has gotten worse in the past three years, while one-third believe it has stayed the same.
- o Growth Cities -- Washington, Huntsville (AL), Dallas, Cleveland and Seattle are "Cinderella Cities" -- the favorites of small businesses in their regions for strong economic growth in the next five years.
- o Government Support -- Reducing taxes, regulation and red tape are top priorities for government attention.
- o Obstacles -- Uneven cash flow is the most pressing concern among businesses surveyed.
- o Borrowing -- 28% of the companies will increase their borrowing in 1990 over last year; 44% will borrow the same.
- o Bankers -- 86% of the businesses are satisfied with their banker's ability and willingness to support the company's business goals.
- o Ownership -- Fewer than one-quarter would pass the business along to a family member if ownership were to change in two years; fewer than 3% would go public.

## **SURVEY METHODOLOGY AND RESPONSE**

In January 1990, 736 survey forms were circulated to 53 CPAs in 34 states, all of whom serve on committees for the sponsoring organization. The CPAs distributed the forms to their small business clients. By March 31, the response cut-off, we had received 359 completed survey forms, a 48.8% response rate.

The conclusions drawn in this report are based on the answers and comments of the survey respondents. Tabulation services were provided by Audits & Surveys, a New York-based research company. Survey results have not been statistically verified. Percentages may not add up to 100 due to blank and "other" responses.

NOTE: When findings by region, industry or company size differ markedly from the national response, the variance is noted in the discussion of the findings.

**Geography:** We grouped respondents by headquarters region as indicated on the following map:



As shown in the table below, response was evenly distributed across the country:

### ***Headquarters Location of Companies Surveyed***

Northeast:	19.8%
Southeast:	17.5
Midwest:	17.8
Southwest:	12.8
West:	27.6

**Industry:** Industry groups represented in the sample are as indicated:

*Industry Composition of Companies Surveyed*

Manufacturing:	20.1%
Wholesale:	15.6
Services:	30.4
Retail:	14.8
Other:	18.4

Of the companies answering "other," half are in construction, contracting or real estate.

**Size:** The companies are also evenly dispersed by size, measured in terms of annual revenues for the most recent fiscal year. Roughly half are below the \$5 million mark in sales, and half are above:

*Annual Sales of Companies Surveyed*

Below \$1 million:	18.9%
\$1 - 5 million:	33.1
\$5.1 - 15 million:	23.4
\$15.1 - 25 million:	8.6
More than \$25 million:	15.0

**Respondent Title:** Almost two-thirds of the respondents (66.2%) hold the title Chairman or President. About one-quarter (23.4%) are the Chief Financial Officer or Controller, while 10.3% are managers, operations people or other officers.

**Equity:** A clear majority of the respondents (79.8%) have equity in the company.

## **SURVEY FINDINGS**

### **U.S. FINANCIAL CLIMATE**

We asked, "In your opinion, has the financial climate for small businesses in the U.S. gotten better, worse or stayed the same in the past three years?" The national response:

#### ***Financial Climate: All Companies***

Worse:	46.0%
Same:	32.9
Better:	19.2
Don't Know:	1.9

Geographically, the results demonstrate the trend of "regional recessions" that the U.S. has experienced in the 1980s. Companies in the Northeast and Southwest are more likely to answer "worse" than their counterparts in other regions.

#### ***Financial Climate: By Region***

	Northeast	Southeast	Midwest	Southwest	West
Worse:	56.3	50.8	32.8	56.8	42.4
Same:	21.1	34.9	48.4	28.3	30.3
Better:	21.1	11.1	17.2	15.2	26.3

Respondent comments revealed strong trends about future economic conditions. While comments from Southwestern companies generally indicate a cautious optimism, two remarks from New York sum up that region's uneasiness -- "1990 could be a down year," and "We feel the trend is toward a shakier climate."

Among industry groups, retailers are more likely than others (54.7%) to have seen the financial climate deteriorate in the past three years. As one Alabama respondent noted, "Competition has increased from discount stores with similar products." And from a respondent in Iowa, "Our community has lost three Main Street businesses in the last nine months." Of those companies with less than \$1 million in sales, 55.9% noted that the last three years have been tougher for small businesses.

On the flip side, manufacturers (22.2%), companies from Western states (26.3%) and those with revenues between \$1 - 5 million (25.2%) answered "better" more often than the rest. One company from Washington noted, "The markets have remained stable, which gives us the ability to plan our business."

Many entrepreneurs commented that their local economies had improved significantly compared with the rest of the country. Finally, some noted the benefits of autonomy. A CEO from Ohio stated, "There is a national awareness and perhaps even glamour associated with the mythical rags to riches entrepreneur. This ties in with the loss of true job security in the U.S., thanks to takeovers, etc."

## **CINDERELLA CITIES**

When asked to name one large city in the region that is "likely to experience the fastest growth in the next five years," the respondents named 93 different cities. The top three vote-getters for each region are as follows:

### ***Top Growth Cities By Region***

Northeast:	1. Washington, DC 2. Baltimore, MD 3. New York City, NY
Southeast:	1. Huntsville, AL 2. Jackson, MS 3. Charlotte, NC
Southwest:	1. Dallas, TX 2. Houston, TX 3. Albuquerque, NM
Midwest:	1. Cleveland, OH 2. Minneapolis, MN 3. Indianapolis, IN
West:	1. Seattle, WA 2. Boise, ID 3. Spokane, WA



## **ACTIONS OF THE FEDERAL GOVERNMENT**

In an open-ended question, we asked, "If the federal government could do one thing to make your business run more smoothly, what would it be?" Interestingly, the overwhelming response addressed what government should not do rather than what it should.

Here are the top ten comments (out of more than 50 topics) and the percentage of people mentioning them:

### ***Top Ten Requests For Federal Action***

1. Cut taxes/change tax structure	17.5%
2. Eliminate paperwork and red tape:	15.3
3. Reduce regulation:	10.5
4. Go away altogether:	9.2
5. Stop changing tax laws:	4.4
6. Reduce the deficit/balance the budget:	3.8
7. Cut health care costs/begin national health insurance:	3.3
8. Lower interest rates:	3.1
9. Give support to people with questions and problems:	2.2
10. Provide financial incentives:	1.9

The only two proactive measures -- "support for people with problems" and "financial incentives" -- barely make the list. Also notable for its absence is assistance for small businesses in the international arena.

In their comments, the entrepreneurs' frustration with paperwork and regulation is pronounced. Among the comments:

"Do nothing. No tax reform acts, no nothing for 3 to 5 years, let everyone catch up with existing laws and regulations including the federal agencies themselves -- from OSHA to the IRS." (Montana)

"Cease to exist!" (New York)

"Become fiscally responsible -- as a business must be in order to survive." (Washington)

## FINANCIAL OBSTACLES

When asked to select the one greatest financial obstacle currently facing their companies, small business leaders noted:

### *Greatest Financial Difficulty*

Uneven cash flow:	33.4%
Taxes:	16.4
High salaries/labor costs:	15.9
Obtaining outside capital:	12.3
High rents/facilities costs:	4.7
Other:	13.6

Uneven cash flow is truly the bane of small businesses, as it is ranked consistently higher than any other response across regions, industries and company size. Those facing the greatest cash squeeze are companies in the Southeast (42.9%), those with less than \$1 million in sales (48.5%) and those in service businesses (37.6%). Predictably, larger companies -- those with \$25+ million in sales -- are less affected by cash flow problems (20.4%).

Taxes are most troubling to companies in wholesale industries (23.2%), while challenges of high salaries and labor costs are clearly regional.

### *Companies Noting Salary/Labor Costs As Greatest Challenge*

Northeast:	29.6%
Southeast:	15.9
Midwest:	7.8
Southwest:	19.6
West:	11.1

Among other challenges noted under "other," insurance costs and the expense of government regulation are mentioned most frequently. From New Mexico comes the comment, "Insurance and workers compensation is taking our net profits."

## 1990 CAPITAL PLANS

We asked, "In 1990, is your company likely to borrow/raise more, less or about the same amount of money as you did in 1989?" Nationally, the response indicates a preference for the status quo:

### *Borrowing Plans: 1990 vs. 1989*

About the same:	43.7%
More:	27.9
Less:	24.0
Don't Know:	4.5

About half the businesses surveyed will change their borrowing plans this calendar year. Those companies that are more likely to increase debt levels are companies in the East (32.4%), those with \$15 - 25 million in annual sales (35.5%) and manufacturing companies (33.3%).

Why? Despite findings that cash flow is a serious concern, a clear majority of those raising more money this year say they are upgrading equipment, expanding into new products or building new facilities. As one Ohio business owner noted, "We're expanding, growing, creating opportunities -- seizing the day -- to the extent that we can with the limited growth capital available."

Companies in the Southwest (54.3%) and in the service business (57.8%) are most likely to borrow the same as in 1989. Based on the comments made by respondents, roughly one-third of those responding "the same" didn't borrow in 1989 and don't plan to again this year.

Among those who are raising less money, the most common reason is that they are actively seeking to reduce their debt levels and interest expenses. An executive in Louisiana commented, "We have been paying off debt very quickly recently. I will feel more secure as we get into a better equity position." Another respondent from Florida said succinctly, "The greatest burden on small businesses is debt."

## **BANKING RELATIONSHIPS**

Despite recent reports of tighter credit for small business borrowers, bankers get high marks in the PCPS survey. When asked to characterize their banker's ability and willingness to support the company's business goals, national response indicates that a full 86% are satisfied with their banker's performance:

### ***Banker Performance***

Very willing/able:	57.4%
Moderately willing/able:	29.0
Not particularly willing/able:	5.8
Not at all willing/able:	3.1

The percentage of respondents noting that their banker is "very willing and able" leaps to 69.8% in the Southeast, and above 70% for companies with more than \$15 million in annual sales. 91.1% of wholesalers responded that their banker is "very" or "moderately" supportive.

The survey also indicates that small business/banking relationships are stable. Businesses surveyed have used their principal bank for an average of 13.3 years; two-thirds have worked with the same bank for more than five years, as indicated in the following chart:

### ***Years With Principal Bank***

One year or less:	5.6%
2 - 5 years:	28.1
6 - 10 years:	21.7
11 - 20 years:	20.6
21-30 years:	9.5
31+ years:	9.7

While a number of entrepreneurs mentioned credit problems created by the collapse of the U.S. savings and loan industry, others echoed the sentiments of a Californian executive: "Banks are more willing and aggressive in working with small businesses."

## CHANGES IN OWNERSHIP

The respondents were asked to select the most likely path the company would follow if ownership were to change within the next two years. Fewer than a quarter will pass the business along to a family member. Their options:

### *Probable Company Disposition*

Sell to a larger corporation:	25.9%
Sell to outside investors:	25.1
Pass the business to family members:	22.3
Sell to insiders:	15.9
Don't Know:	3.6
Go public:	2.5
Liquidate:	1.9

Southeasterners are almost twice as likely (31.7%) to sell to outside investors as those in the Northeast (16.9%), whereas Northeasterners are more likely than those in other regions to pass the business along to a family member (29.6%). Interestingly, when measured by company size, only the largest companies (those with \$25+ million in sales) demonstrate an increased likelihood to turn the business to family members (29.6%).

Trends in retailing differ from other industries. Retailers would rather sell to outside investors (35.8%) or pass the business to a family member (37.7%) than sell to a larger corporation (11.3%) or sell to insiders (9.4%).

In an interesting sign of the times, "liquidate" gathers almost as many votes as going public.

## **ABOUT THE AICPA PRIVATE COMPANIES PRACTICE SECTION**

The Private Companies Practice Section (PCPS) is an association of 6,000 leading local and regional CPA firms that serve private companies. It is part of the American Institute of CPAs, the national professional organization of CPAs which has more than 296,000 individual members.

The 1990 Small Business Survey is part of a continuing effort by PCPS and its members to monitor key issues that affect small and privately held companies.

As a condition of membership in PCPS, firms voluntarily participate in a demanding quality control program which includes a "peer review" of their accounting and auditing practice every three years, the results of which are available to the public.

Like an audit, a peer review is an independent evaluation by a group of specially trained CPAs to determine if a firm's quality control system conforms to the highest professional standards. In addition to peer review, all of the professionals in a member firm must have an average of at least 40 hours of continuing professional education every year.

PCPS firms work hard to stay up-to-date in the profession and can demonstrate the quality of their accounting and auditing services.