

Looking Ahead: Opportunities and Challenges for Entrepreneurship and Small Business Owners

An Office of Advocacy Working Paper
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This paper was prepared for presentation at "Entrepreneurship in a Global Economy," a conference sponsored by the Western New England College's Law and Business Center for Advancing Entrepreneurship, held in Springfield, Massachusetts, on October 17, 2008.

Purpose

This paper outlines the most important issues and opportunities facing small business owners and entrepreneurs in this election year. While it does not delve into policy solutions, the next administration will almost certainly need to address many of them, regardless of who wins the presidency.

Challenges

The paper outlines five major challenges that small business owners will face in the coming years.

- **Strengthening the Overall Economy.** Small businesses continue to struggle in the economic downturn, and it will be important for policy leaders to get the economy moving again. Small businesses will be a large part of that, as entrepreneurs will spur new innovation and employment in the coming years. These firms will continue to be the job-generators that we have become accustomed to. With that said, industries will recover from the downturn in different ways, and some industries have clearly been hit harder this time than in past business cycles.
- **Taxes and Regulation.** Business conditions have a fundamental impact on entrepreneurial activity, and small business owners frequently cite tax and regulatory policies as a concern. Moving forward, it

will be important for policymakers to consider the impact of taxes and regulations on small business owners and would-be entrepreneurs.

- **Cost and Availability of Health Insurance.** Health insurance premiums have risen substantially in this decade. The Kaiser Family Foundation reports that the cost of employee-sponsored health insurance plans has increased 119 percent since 1999. It is also well-documented that employees at smaller firms are less likely to be offered health care coverage. Finding ways to control the cost of providing health insurance to employees and increasing coverage will remain a priority for our national and state leaders.

- **Attracting and Retaining a Quality Workforce.** Small businesses must compete for labor with their larger counterparts. This is more difficult in light of the disparity in total compensation, especially benefits, and the result is greater employee turnover. Demographic trends in the coming years might also exacerbate these challenges.

- **Global Competition.** American businesses face competitors on a number of fronts, both at home and abroad. The U.S. government has worked to increase the ability of our firms to compete overseas by lowering trade barriers. There are also some structural disadvantages that work to make our products less competitive, and many companies have reduced their costs by outsourcing some processes and tasks abroad. While insourcing also exists, many of these issues—especially the assertion that firms are “outsourcing jobs”—remains controversial; yet, firms argue that these are necessary strategies for survival in a global marketplace.

Opportunities

The paper also discusses five opportunities that small businesses will hopefully pursue in the next decade.

- **Increased Investments in Technology and Innovation.** There are strong linkages between innovation and new firm formation, and policymakers fully understand that risk-taking entrepreneurs have positive impacts on regional economic development. With many regional officials seeking the “next big thing” that will drive their local and regional economies for years to come, there is an appreciation that small businesses are leading the way toward new inventions, processes, and products. Such innovations are vital to our economic growth, and they will provide the tools to make our economy more competitive in an increasingly globalized marketplace.

- **“Economic Gardening” and Grooming Local Entrepreneurs.** Proponents of “economic gardening,” which has communities plow the dollars that would have been spent on luring big businesses to their town to promote local small businesses instead, argue that grooming existing firms can ultimately lead to greater payoffs in terms of job creation.

- **Pursuing New Markets Overseas.** One of the strengths in our current economic climate is the export sector, and international trade represents an opportunity for small businesses. Historically, many small business owners have not been proactive about trading with foreign partners. While 28.9 percent of the known export value stemmed from small firms, entrepreneurs have yet to fully tap the potential for growth in the export arena.

- **Promoting Business Ownership among Selected Demographic Groups.** Women and minorities have been extremely entrepreneurial over the past few years—a trend that is expected to continue. One of the driving factors for minorities has been the influx of immigrants coming to this country. Recent studies show a strong connection between immigration and high-technology entrepreneurship, suggesting enormous benefits for embracing these new citizens. In addition, many of the veterans returning home from Iraq and Afghanistan, are likely to devote themselves to entrepreneurship, as previous generations of veterans have done. Policymakers should find ways to promote greater business ownership among each of these groups.

- **Advancing Education and Training.**

Education and training are important as there are strong linkages between entrepreneurship and human capital. Moreover, small business owners devote significant resources to training their workforce. These firms are able to increase their labor productivity and reduce their labor turnover. In this way, small business owners should look at education not just as a means of retraining their workers, but also as methods of building new skills, developing new human talent, and preserving employee morale. Failure to do so might result in a reduced competitive position for the most talented employees.

Research Note

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