

# ANALYSIS OF THE DEVELOPMENT OF SMALL BUSINESS ON THE EXAMPLE OF USA

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**Abstract:** this article analyzes small business and private entrepreneurship in the USA, namely, how the U.S. government developed and supported business and entrepreneurial activities; what kind of aids businesses can get; financing options and the role of small business and private entrepreneurship on the economy of the USA.

**Keywords:** business, entrepreneurship, development, loan, strategy, taxation, employment, finance, industry, standard.

## АНАЛИЗ РАЗВИТИЯ МАЛОГО БИЗНЕСА НА ПРИМЕРЕ США

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**Аннотация:** в данной статье анализируется малый бизнес и частное предпринимательство в США, а именно, как правительство США развивало и поддерживало предпринимательскую и предпринимательскую деятельность; какие виды помощи могут получить предприятия; варианты финансирования и роль малого бизнеса и частного предпринимательства в экономике США.

**Ключевые слова:** бизнес, предпринимательство, развитие, кредит, стратегия, налогообложение, занятость, финансы, отрасль, стандарт.

One of the world's advanced economies, the United States of America pays special attention to the development of small businesses and private entrepreneurship. To clarify, the USA has its unique strategy, methods, and mechanism in terms of small businesses, which can help the country create more employment opportunities and high value-added to the economy.

Without any shadow of a doubt, small business is one of the primary sources of most jobs in the United States. The U.S.'s economy and growth are interrelated with the development of small businesses because they create job opportunities, financial growth, and many types of different goods and services that most of them are directed at satisfying the needs of the U.S. population. In contrast, others are directly and indirectly exported to foreign countries around the world. Thomas M. Sullivan, the chief counsel for advocacy of the Small Business Administration (SBA), mentioned, "Small business is a major part of our economy, ... small businesses innovate and create new jobs at a faster rate than their larger competitors. They are nimble, creative, and a vital part of every community across the country" [3].

Unlike in Europe, the definition of a small business in the USA varies. As stated by the Small Business Administration, a small business is a firm that has fewer than 500 employees [6] (Table 1).

Table 1. Business size definitions in the U.S (by number of employees)

Definition	Number of employees
Minute/macro	1-6
Small	< 250
Medium	< 500
Large	> 500
Enterprise	> 1000

Interestingly, there is also classification in terms of industries. Based on some standards in specific industries, the U.S. Small Business Administration defines a small business as the followings (table 2):

*Table 2. Small business definition according to industry*

Industry	Not to exceed
Manufacturing and mining	500 employees
Wholesale trade	100 employees
Retail and service	\$6 million average annual revenue
General and heavy construction	\$28.5 million average annual revenue
Special trade contractors	\$12 million average annual revenue
Agriculture	\$0.75 million average annual revenue

Additionally, there are some criteria for small businesses to meet the standards:

- be a for-profit business of any legal structure;
- be independently owned and operated;
- not be nationally dominant in its field;
- be physically located and operate in the U.S. or its territories.

In this case, one thing should be mentioned that if the businesses not run its activity in the U.S add its contribution to the economy via paying taxes or using raw materials, products or labor of the U.S., it is still considered as a small business.

There is a special government agency, the U.S. Small Business Administration (SBA) established in 1953 that is in charge of supporting small businesses and entrepreneurs. The Small business administration's main goal is to create a favorable environment for doing entrepreneurial and business activity, which can help strengthen the overall nation's economy.

In general, the SBA provides several services to small businesses. They are the followings:

- **Access to capital:** The agency offers a variety of financial resources for small businesses including microloans, or small loans issued to those who would not otherwise qualify for financing.
- **Entrepreneurial development:** This is driven by counseling services and low-cost training provided by the SBA. This is available to both new and existing business owners.
- **Contracting:** The SBA reserves 23% in government contracting dollars for small businesses with the help of other federal departments and agencies.
- **Advocacy:** The agency acts as an advocate by reviewing legislation and protecting the interests of small business owners across the country [1].

Moreover, the U.S. SBA provides a number of following SBA-guaranteed loan programs:

- Express loan;
- CAPLines loan;
- Disaster loan;
- Export loan;
- Microloan.

These aforementioned loans are made through the organizations that work in partnership with the SBA, such as banks, credit unions and other lenders.

As for the organizational structure of the SBA, it has an Administrator, a Deputy Administrator and other offices associated with them [2]:

- Business Development;
- Capital Access;
- Communications and Public Liaison;
- Congressional and Legislative Affairs;
- Credit Risk Management;
- Disaster Assistance;
- Entrepreneurial Development;
- Entrepreneurship Education;
- Equal Employment Opportunity and Civil Rights Compliance;
- Faith Based and Neighborhood Partnerships;
- Field Operations;
- Government Contracting and Business Development;
- Hearings and Appeals;
- HUBZone Program;
- International Trade;
- Investment and Innovation;
- Management and Administration;
- Native American Affairs;

- Performance Management;
- Small Business Development Centers;
- Veterans Business Development;
- Women's Business Ownership.

Let us analyze starting business from the ground up in the United States. There are some steps to start a business. The Small Business Administration (SBA) helps people who want to do business activities in writing a business plan, determining the business's legal structure, and more. Possibly, new business starters may make mistakes, but there are local SBA partner organizations that offer free access to mentors and trainers in which people who want to start a business can get valuable pieces of advice from experienced small business owners.

On the official website of the SBA, it is possible to get tips and checklists, for example:

- **Business Funding Options.** The government and other funding organizations support to find loans. If you start or expand your business, government loan programs offer financial support and there are other funding options:

- 1) Small Business Administration (SBA). Special loans for starting, expanding business, and exporting goods. The SBA has particular investment programs: Small Business Investment Company (SBIC), Small Business Innovation Research (SBIR) program, and Small Business Technology Transfer (STTR) program.

- 2) U.S. Department of Agriculture (USDA). Government-guaranteed loans for rural businesses and local program contacts. The main aim of this program is to increase access of rural communities to business capital via loan guarantees.

- 3) GovLoans. It involves economic injury disaster loans, small business loans, certified development company loan program, microloan program, military reservist economic injury disaster loan program, business physical disaster loans, equity investment - small business investment company (SBIC) business and industrial loans, and fisheries finance program.

- 4) Small Business Lending Fund (SBLF). The establishment of the SBLF is the initiative of the U.S. Treasury Department. The SBLF is in charge of offering capital to some organizations, such as qualified community banks and community development loan funds (CDLFs). This offered capital promotes economic growth and creates employment opportunities in which banks and businesses work together. So far, Treasury invested over \$4.0 billion in 332 institutions through the SBLF program, including investments of \$3.9 billion in 281 community banks and \$104 million in 51 CDLFs [4].

- **Tax Requirements.** Any business in the United States must comply with federal, state, and local tax laws. Also, there are additional tax rules in each state when starting and operating a business. The typical business taxes are income tax; self-employment tax or employment taxes (Social Security and Medicare taxes, Federal income tax withholding, Federal unemployment (FUTA) tax); excise tax; property tax; sales and use tax; and estimated tax

- **Business Insurance.** It is important to have proper insurance coverage to protect your business. There is a Small Business Health Options Program (SHOP) for businesses that have no more than 50 employees.

- **Hiring Business Employees.**

- **Consumer Protection Law.** Every business owner must understand the rights and responsibilities to protect their customers and do not violate consumer protection laws.

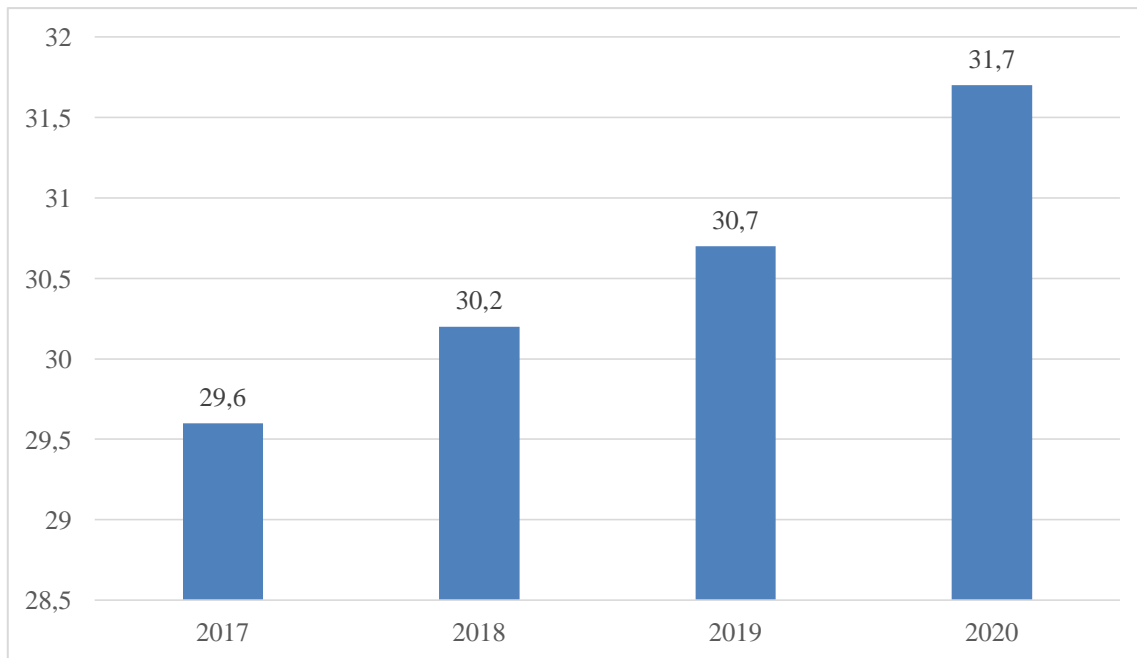


Fig. 1. Small Businesses in the United States from 2017 to 2020 [6](in millions)

The number of small businesses in the United States accounted for 31,7 million in 2020, a 3,15 percent increase from the previous year. Also, it is about 7.09 percent growth in a three-year period from 2017 to 2020 (figure 1).

Several problems can affect the overall performance of entrepreneurial and business activities in the United States in 2021. According to the owners of small businesses, the most fundamental problem is the quality of labor. Nearly 25 percent of the respondents state this problem. Surprisingly, problems associated with finance & interest rate or labor cost are not the most concerned ones. Another important problem is connected with taxation that approximately a fifth of the respondents in the USA mentions this problem (figure 2).

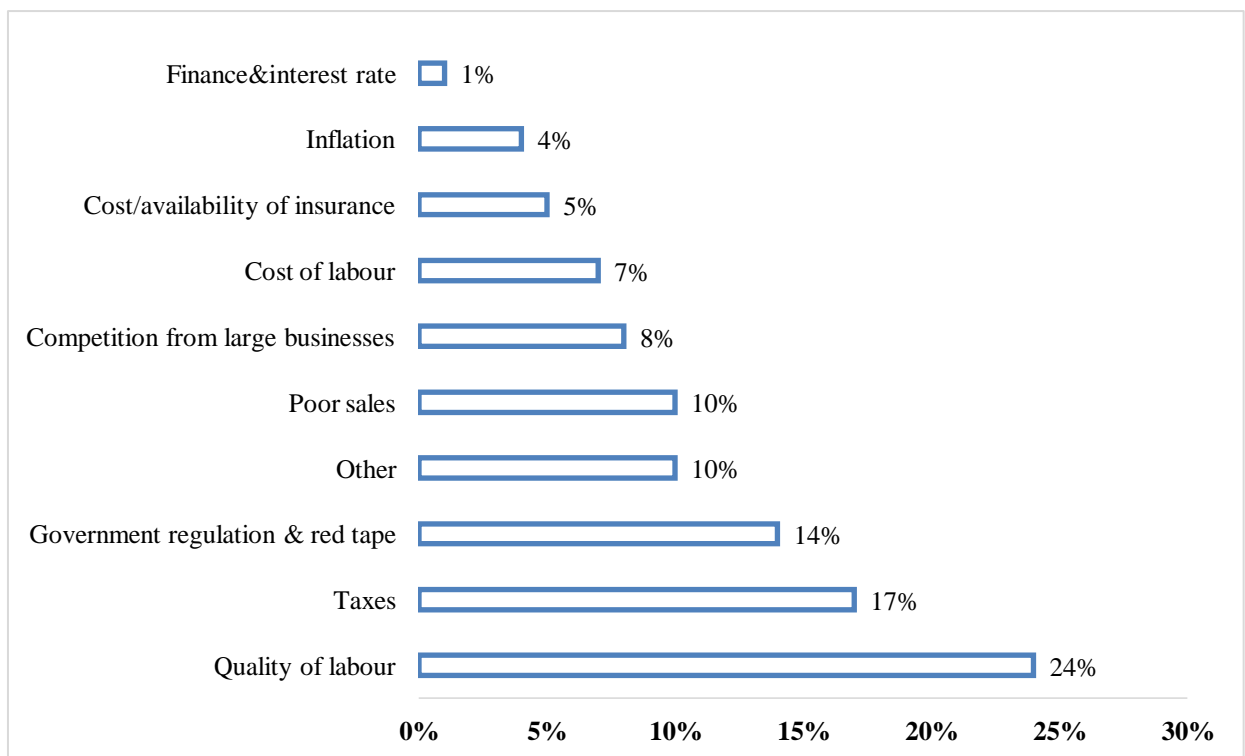


Fig. 2. Single most important problem for small businesses in the United States in 2021 [5]

Financing forms of small business is also different in the United States. According to recent statistics, the most popular form of financing business activity is cash that 39 percent of owners utilize the cash to start their

business. Also, Rollovers for Business Start-ups (ROBS) is the second popular form of financing with 20 percent. Other forms of financing business activity are aid from friends and family, SBA loans, and lines of credit at 10, 9, and 9 percent utilization, respectively (figure 3).

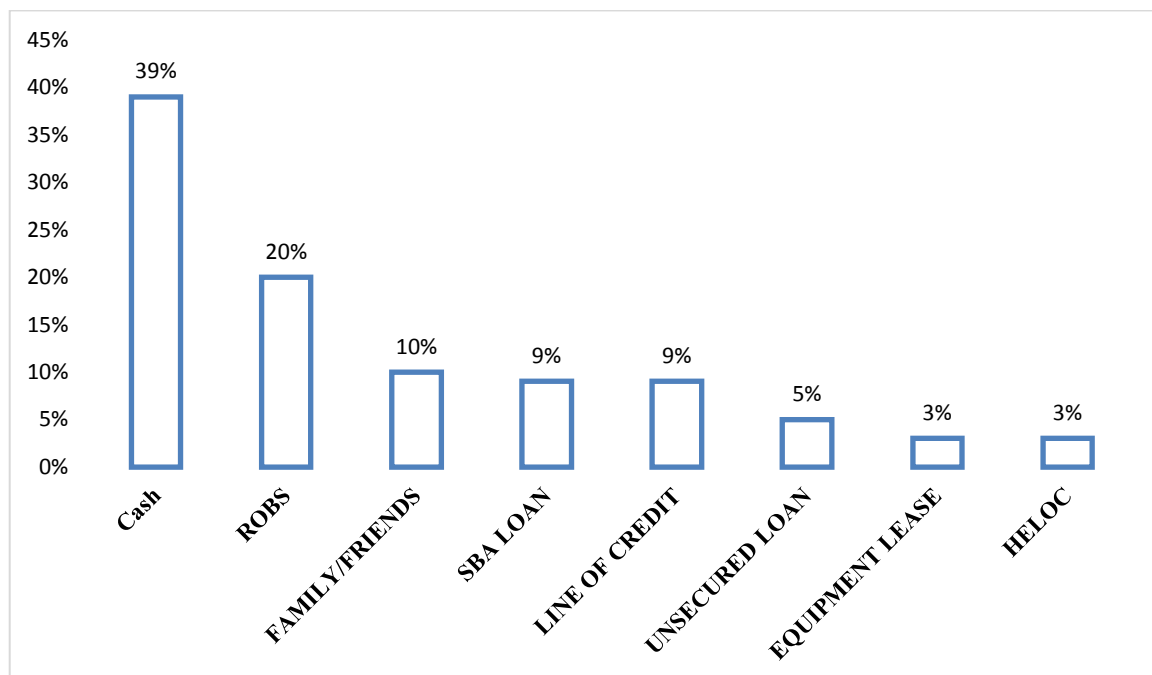


Fig. 3. Financing methods of Small businesses in USA [7]

As we stated earlier, the central part of the country's economy is small business and entrepreneurship; American people strive for business. The majority of the United States population prefer to start their individual small business to make side money for themselves. Without a doubt, they have 'innate' ability or burning desire for business activities. According to recent research that examined the confidence of business owners based on the current political climate, 11 percent of respondents said they were very confident, and 30 percent of the respondents were somewhat confident in their actions. However, 24 percent answered somewhat unconfident – demonstrating the range of mixed feelings about the effects of politics on small business. Fifteen percent answers very unconfident, while 11 percent of respondents were very confident. The percentage of the business owners that were neutral to current political changes made up 21 percent (figure 4).

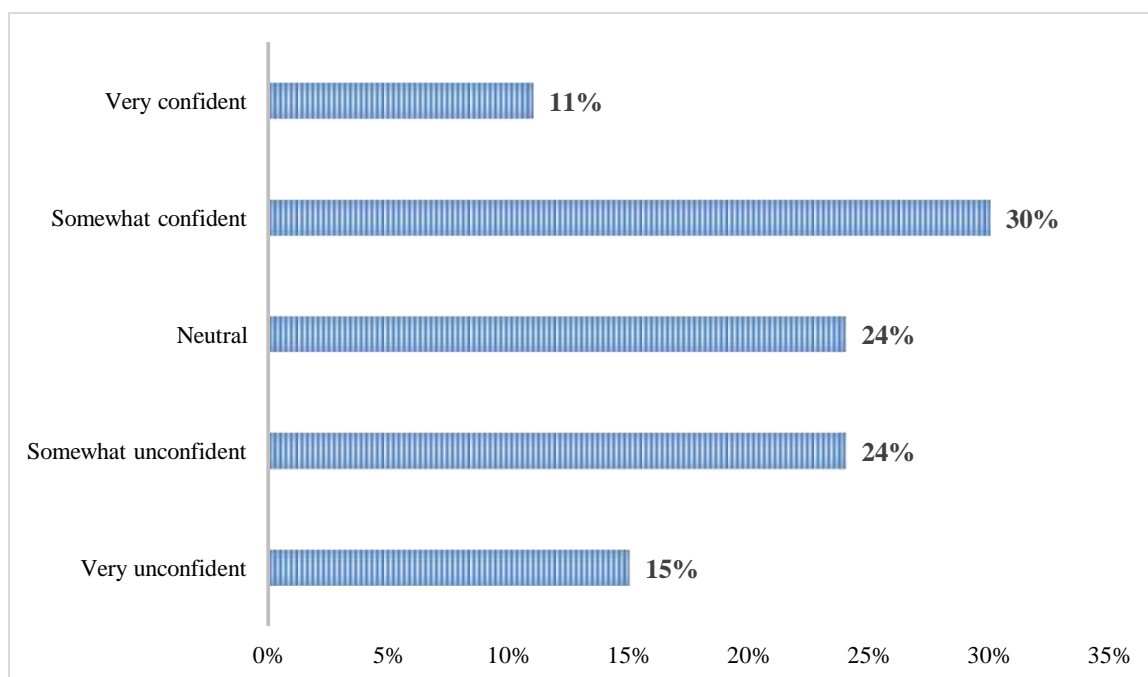


Fig. 4. Confidence of small business in current political climate [7]

According to the statistics of U.S. Bureau of Labor Statistics in 2020:

- 17,25 % of all businesses had less than 500 employees;
- 18,3 % has less than 100 workers;
- 17,09 % had 19 workers or less [8].

Above mentioned numbers mean that small businesses have more than 50 % of the workforce in the USA.

To sum up, let's see several small business statistics of the USA that from them we can know the overall performance of small businesses and why they are important for the economy of the country. In 2019, there were about 30,7 million small businesses in the U.S which accounted for 99,9 percent of all U.S. businesses. According to the Small Business Administration, small companies create 1.5 million jobs annually and account for 64 percent of new jobs created in the U.S. [6]. In 2018, 24 % of small businesses earned between \$1 and \$5 million while only one percent made about \$150 million in gross revenues. Moreover, based on the small business survey of the National Small Business Administration, 23% of small businesses earned less than \$100,000, and 14% earned between \$100,000 and \$250,000. Moreover, the survey also showed that around 63% of small businesses spend more than \$1,000 per year on federal taxes alone while 3 % of small businesses spent more than \$40 000 [9].

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