Economic Downturn, a Contributory Factor to the Struggles of Small Businesses

Historically, small businesses have struggled to stay afloat, with many of them folding up shops due to factors such as lack of human capital, limited technological innovations, their inability to respond to market conditions and limited access to funding. Are economic downturns a contributory factor to these struggles? The small businesses sector is an engine of economic growth but small businesses struggle to survive, let alone thrive. Their small size makes small businesses vulnerable, especially in economic downturns. According to the Small Business Administration (SBA, 2019), there are 30.7 million small businesses in the U.S. which account for 99.9 percent of all U.S. businesses. Small businesses account for more than half of all U.S. jobs and new job formation. An average of 60% of all new jobs can be attributed to small businesses, both existing companies and start-ups.

An analysis of the distribution of the total U.S. small business population identified retail trade as the largest sector of the small business industry (Handbook of Small Business Data, 1988). The recent COVID-19 pandemic that kept consumers away from the retail outlets in many countries and the United States created among the many challenges; a drop-in sale and the inability to make payroll or pay business expenses for many small businesses. It has been suggested that the median small business in the United States with more than $10,000 in monthly expenses had only about 2 weeks of cash on hand at the time they had to close shops due to COVID-19. Small and medium sized businesses (SMEs) drive innovation and competitiveness and account for 44% of U.S. economic activity (US Small Business Administration, 2019). This provides justification for examining the economic sector within which small businesses operate.

Many studies have shown a correlation between economic downturns and small businesses' struggles. Economic downturns precipitated by disasters such as the recent COVID-

19 pandemic are beyond the control of businesses yet it can create disastrous implications for businesses especially smaller businesses. Not making sales due to consumers staying out of the shops or reduced foreign demand for U.S. goods exports, supply-chain disruptions and plant closures amounts to a suffering economy which largely impact negatively on SMEs and their employees. Some researchers have said that small businesses become innovative and are quickly able to steer from economic downturns when the business owner's entrepreneurship skill is heightened and has expertise on crises management. However, others make the point that given the newness and severity of a crisis, previous entrepreneurial experiences cannot be applied and have little or any substantive effects on small business performance. Be it as it may, SMEs in general are characterized by poor financial and managerial knowledge and that affects their access to external finance. Furthermore, limited financial skills also negatively impact SMEs' chances of survival, growth and innovation. It is also reported that a scarceness of financial management skills is correlated with firms' access to finance that adversely impacts firms' ability to access optimal debt and equity.

The importance of small businesses' ability to innovate, the previous entrepreneurial experience of owners of small businesses, financial business skills, and their access to holding previous bank loans are indication that the institutional background of businesses should be examined with respect to their access to funding. It has been noted that large banks limit its application pool to businesses with which they have a lending relationship or been in business for longer than most small businesses. For instance, in October 2020, the House Select Subcommittee on the Coronavirus Crisis issued a report that was highly critical of large bank Paycheck Protection Program (PPP) participation, arguing that many large banks 'processed bigger PPP loans for wealthy customers at more than twice the speed of smaller loans for the

neediest small businesses' (p. 2). It has been said that being innovative and creating new offerings that go beyond expressed customers' need demands the availability of financial resources. Therefore government-backed credit guarantee funds are conducive to enterprises producing more economic benefits.

Cheng (2015), however argues that contrary to conventional belief, access or "holding a bank business loan is not a statistically significant predictor of new business survival in general or for various minority-owned ventures" (p. 20). The U.S. Census Bureau released a new estimate in May, 2020 where it estimated 1.1 million employer firms were owned by women and 1.0 million by minorities. Given that minority owned businesses are a big chunk of small business, it highlights an important demographic justification for examining access to state provided loans such as the PPP.

Conclusion

Government policies that support small business should take cognizance of the demographic, economic, geographical, historical, institutional, political, and social milieu within which small businesses operate. Policy in this area should focus on making loans accessible to small businesses during periods of economic recession and pandemics. During economic downturns when banks turns to tightened financing requirements for businesses, public guarantee schemes are necessary to generate stronger external validity to revitalize the economy. State guaranteed funding have the potential to keep businesses afloat to help turn the economy north.

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