

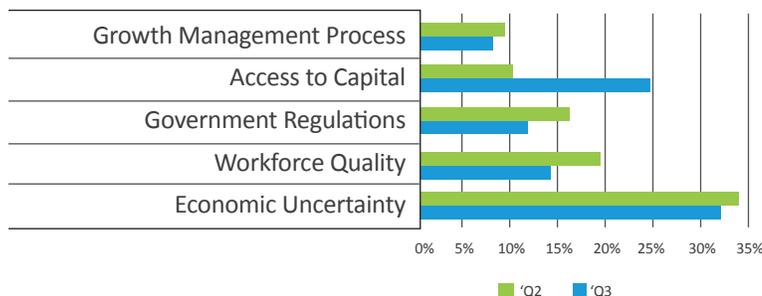
Florida Small Business Confidence Index - Results for September to November of 2016

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1. Overall findings

Florida small business confidence declined sharply for the third quarter of 2016 with only 42 percent believing (*agree/strongly agree*) the economy will grow significantly over the next year (**Figure 1**). This totaled 51 percent in the second quarter. When asked to specify the top issue facing Florida small businesses, access to capital was an area of growing concern (*25 percent for this quarter versus 17 percent last quarter*). Economic uncertainty was still the number one issue, but this concern actually declined slightly with just under one third of respondents identified it.

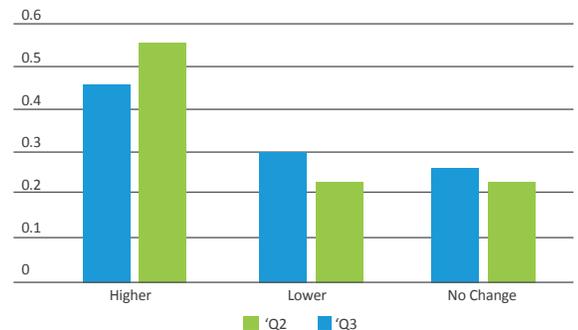
Figure 1 - What is the top issue facing Florida small businesses today?



Third quarter respondents also had a relatively poor sales report. Only 45 percent reported a sales increase (*last three months relative to the same period in 2015, not shown*) and this was down from 56 percent in the second quarter. While the questions are not identical, we think this is similar to the revenue decline found in the Dunkelberg and Wade National Federation of Independent Business October report.³

Despite challenges in finding quality applicants (*see below*) and obtaining financing (*also see below*), Florida's small businesses remain optimistic. Eighty-three percent of small businesses expect sales to increase over the next year (**Figure 2**). Though this represents a decline – it was eighty-six percent in the second quarter – readers should recognize that there are still some respondents who are overly optimistic, which research has indicated can be both a beneficial and troublesome quality when it comes to decision making (*e.g., Cooper et al. 1988⁴; Dushnitsky, 2010⁵*).

Figure 2 - How were your company's sales over the last 3 months compared to the same period last year?



2. Employment plans and labor force quality

Back to the declines, employment plans dipped with 40 percent indicating they hired “a few new employees,” compared to 45 percent in the previous quarter (**Figure 3, current results only**). A big increase here was in the “Not sure” category, rising from nine percent to 17 percent across the two quarters. When asked about the biggest obstacle to hiring, the third quarter answers mirrored those of the second quarter. Finding quality applicants was the top response, followed by no growth in sales and economic uncertainty. For that leading issue -- finding quality applicants -- last quarter had this at 32 percent and we find it just one point higher.

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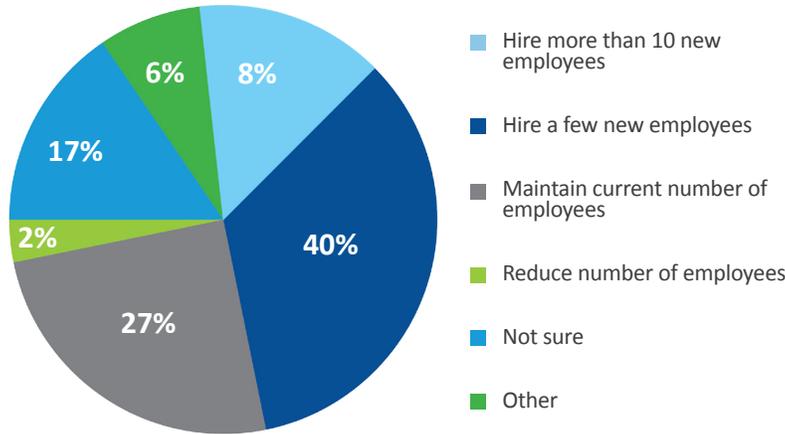
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³ Dunkelberg, William C. and Wade, Holly (2016). National Federation of Independent Business Small Business Economic Trends, (October), <http://www.nfib.com/assets/SBET-October-2016.pdf>

⁴ Cooper, A. C., Woo, C. Y., & Dunkelberg, W. C. (1988). Entrepreneurs' perceived chances for success. *Journal of business venturing*, 3(2), 97-108.

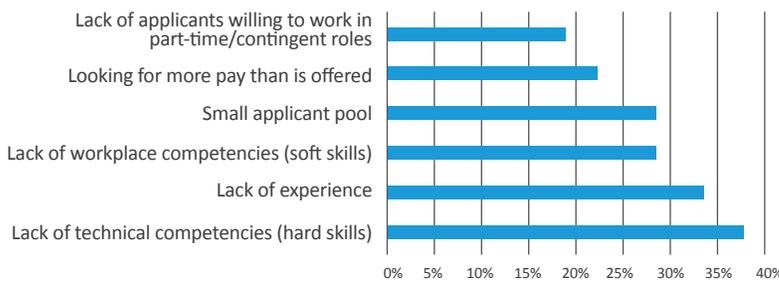
⁵ Dushnitsky, G. (2010). Entrepreneurial optimism in the market for technological inventions. *Organization Science*, 21(1), 150-167.

Figure 3 - What are your employment plans for the next year?



When asked to specify from the various problems in finding quality applicants, Florida’s small business owners again report a mix of challenges. Thirty-eight percent of respondents cited hard skills (*lack of technical competencies*) as a leading challenge, followed by lack of experience (*33 percent*), soft skills (*lack of workplace competencies, 29*), small applicant pool (*28*) and applicants with high pay expectations (*22, all in Figure 4*). One interesting change from the previous quarter was related to finding applicants willing to work part-time or in a contingent role. Almost 20 percent of our current respondents indicated this was a barrier, while only 12 percent had identified it in the second quarter. We note that respondents for this question were able to select all problems they had experienced when trying to find quality applicants.

Figure 4 - Which of the following are barriers to finding quality applicants (check all that apply)?

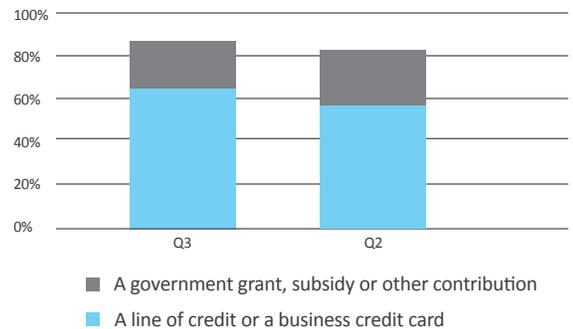


3. Access to capital

Expansion plans have also declined slightly. Forty-two percent of respondents planned on new capital, either plant or equipment, spending either next year or beyond (*not shown*). This total was down from the second quarter’s 46 percent, but almost the entire decline was in plans for more than one year from the time of response. In other words, the confidence decline seems to be threatening long-term expansion plans more than short-term plans.

In addition, more than 30 percent of our respondents had trouble obtaining financing in the last year (*Figure 5*). This response was up from the previous quarter (*then, 25 percent*), but the specified area of trouble in the financing environment is no surprise. Almost two-thirds of Florida small businesses who had trouble raising funds experienced issues in obtaining a line of credit or a business credit card. The total is larger than that of last quarter, but again was the leading answer by a large margin. Government grants and subsidies were also reported as an area of frustration, with about 25 percent reporting difficulty in the third quarter, mirroring the findings of the second quarter. Thus, the reader can see these two bars totaling more than 80 percent of our responses in the figure.

Figure 5 - What type of financing were you unable to obtain (check all that apply)?



This finding in Figure 5 provides important insights for the directors of the Florida SBDC Network. In particular, if Florida small business owners are spending time applying for lines of credit for which they will not qualify or a government-grant process that is likely to lead to rejection, this can be viewed as a waste of time and resources for them. The finding highlights a strong need for entrepreneurial education in these areas of funding opportunities and how to be more successful with these types of applications.

4. Regulation and politics

The role of regulation and government on small business decision making was also analyzed. Consistent with data from the second quarter, respondents found federal regulation to be the most unreasonable, with local regulation having less of a negative impact. Forty percent of respondents feel federal regulation is either slightly or very unreasonable (*not shown*). One theme of concern related to federal regulations that are more difficult and costly for small businesses to adhere to, relative to their larger business or corporate competitors (*see Box 1*). In particular, business owners cited environmental regulations and the Affordable Care Act as having especially strong negative influences. Another issue commonly cited related to federal regulation was the clarity of legal regulation, the issues for small business when trying to keep up with rapid regulation change, and the amount of red tape required to meet regulation requirements appear to favor large business. Last, tax laws, tax rates, and other tax concerns were cited 87 times by our respondents as having a negative impact on their ability to effectively operate their businesses.

Survey results also illustrate small business owner concern over the political environment of our country. We note that the vast majority of our responses were collected prior to the presidential election on November 8th, 2016 before turning to the findings. When asked about their perception of the current political climate in the United States, 79 percent of Florida small business owners rated the climate as moderately or very volatile. For the Florida climate, this number dropped to 43 percent. While the attitudes may change post-election, the impact of these perceptions on business growth and investment plans is potentially problematic. The majority of respondents felt the political environment would have no impact on their investment decision related to hiring new employees, entering new markets or investing further into existing markets (*the middle bars in Figure 6, all slightly above fifty percent*) over the next three months.

Figure 6 - What impact does the current political climate in the USA have on your plans for the following



Box 1: Is the playing field level?

It should be noted that based on a qualitative analysis of results, there was a theme of concern expressed by respondents. More than a handful of Florida small business owners articulated apprehension about a system where they are at a disadvantage relative to larger businesses. The specifics differed in their comments – e.g., the tax code, employment laws, local property zoning, vendor pricing – but small businesses are clearly concerned and the impact of this on their business planning and investment decisions could be problematic.

As mentioned, we identified this through qualitative analysis. Beyond these write-in remarks, we see a clear need for systematic analysis of these attitudes. For the next quarter, we plan to include a special section on to what degree Florida small business owners see the playing field as not level.

However, in these same three areas of hiring new employees, entering new markets, or investing further into existing markets, pessimism dominates optimism. Visually, this appears as the stronger left side of the figure. These results clearly demonstrate the impact of perceived political uncertainty and volatility on small business owner decision making.

5. Natural disasters, recovery, and preparation

The third quarter in Florida also offered a time of reflection for companies when considering the impact of and preparedness for natural disasters. Hurricanes Matthew and Hermine both occurred during this time period. While only 20 percent of respondents reported an impact by either hurricane, the natural disasters served as a reminder to all individuals of the potential for such uncontrollable environmental events (*not shown*). Of note, 58 percent of companies feel they are moderately or very prepared to recover from an unexpected natural disaster. The mere presence of the recent natural disasters led 40 percent of respondents to take specific action to prepare for a future natural disaster.

6. About the survey

The third quarter survey reflects the second round of data collection for this Florida Small Business survey. After a second quarter survey that targeted a smaller sample of small business owners for participation (*resulting in 137 responses*), the third quarter survey reached a wider audience, with a total of 735 entrepreneurs participating. Future surveys will continue to target this much broader group to maintain a strong response rate and provide the most accurate reflection of the pulse of the Florida small business community.

For the third quarter, 46 percent of respondents were female and 54 percent were male. The largest reporting population by age were individuals between the age of 45 and 54 (*32 percent*). Senior respondents over the age of 65 represented seven percent of the sample population.

The survey includes geographic information of the respondents for the first time. Top response areas include the University of Central Florida (*UCF, Table 1*), University of South Florida (*USF*) and University of North Florida (*UNF*). Collectively, these accounted for just over 50 percent of the survey responses.

In addition, the sample population provided wide representation across industries. The industries having the highest level of representation in our sample include Professional, Scientific, and Technical Services (n=102), Manufacturing (n=68), Retail Trade (n=59), Other Services (n=44), Construction (n=43), and Administrative and Support Services (n=42). Others having moderate representation included Accommodation and Food Services, Healthcare and Social Assistance, Educational Services, Arts, Entertainment and Recreation, and Real Estate and Rental and Leasing. Compared to the percentage of companies in various industries in the state of Florida (based on industry NAICS code), the largest over-and under-represented industries in our sample include Professional, Scientific and Technical Services (+3.5%), Educational Services (+3%), Arts, Entertainment and Recreation (+2.4%), Health Care and Social Assistance (-6.1%), Finance and Insurance (-4.8%), and Retail Trade (-3.6%).

Table 1

<i>Survey Observations by Florida SBDC Region</i>		
Florida SBDC Region	Observations	Share of the Total (Percent)
Ft. Lauderdale	42	5.7
Florida A&M University	31	4.2
Florida Gulf Coast University	85	11.6
Indian River State College	26	3.5
Florida Int'l University	39	5.3
Florida Keys Comm College	8	1.1
Palm Beach State College	49	6.7
University of Central Florida	139	18.9
Univeristy of North Florida	114	15.5
University of South Florida	124	16.9
Univeristy of West Florida	78	10.6
Total	735	100.0%