

Whats holding back small businesses

[Business](#)



What's holding back Small Businesses?

The global inflation trends have led to the closure of many businesses, increased interest rates for loans and heightened retrenchment of employees. Businesses have opted to cutting down their operational costs in order to maximize profits and remain in business. The global recession has led to the loss of profits for most of the businesses, low dividend earnings for the shareholders, lack of confidence of the management by the investors and subsequent dismissal of the entire management team. The dismissal and retrenchment of management teams and employees is aimed at ensuring that businesses continue to run and profits levels are maintained. The hardest hit are small businesses due to small capital base as they are not able to invest in big research projects to propel the business entity forward and continue to maintain their market share or better still increase the market share (Shleifer, 2004).

The major challenge according to the article is not related to overregulation or taxation but low demand for business products. Over thirty percent of American small businesses attributed their underperformance mainly to poor sales. However, the research carried out by the National Federation of Independent Business also attributed the under performance to competition from large businesses, financing and interest rates, insurance cost and availability, red tape, government requirements, cost of labor and quality of labor among others. All these factors are mostly attributed to the global inflation facing the world economy.

Debate in the recent past on how to improve growth of small businesses and encouraging hiring has concentrated on transforming the tax picture to be more business friendly. However from the research, small businesses

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attribute underperformance to other factors other than taxes. Only a small percentage, about 17-22%, of the businesses attribute underperformance to amount of taxes paid to the government. Though the government has imposed hefty taxes on the businesses, the amount paid to the authority as tax has little impacts on the performance of the businesses. Businesses are just tax collection agencies to the government as the amount of money collected from the client is that which is paid as tax. Businesses transfer the tax burden to their clients and thus businesses do not pay taxes but collect tax from their clients on behalf of and later submit their collections to the government.

The other factor holding down small businesses is the accessibility of loans to stimulate growth in operations. In regard to the borrowing of funds and loans, the financial and interest rates have negligible impacts on the success and performance of businesses. Though businesses may pay high interest rates for loans acquired, an increase in demand of the produced goods and services will suppress the impacts of the high interest rates. An increase in demand of goods and the subsequent increase of sales will turn the business to highly performing business entity. Research shows that the percentage of companies attributing underperformance to sales volume has doubled and that attributing underperformance to taxes have remained constant.

In conclusion, we can attribute underperformance of companies to the sales volume. high sales volume is a good indication of the amount of money received which is directly proportional to the level of profits realized.

However, addressing soft demands of goods and services is contentious and complicated when compared to the supply side policies like giving interest free loans and cutting down on taxes.

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Article

<http://economix.blogs.nytimes.com/2010/09/14/whats-holding-back-small-businesses/?ref=business>

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