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Small Business Enterprises: Fomenting Innovation, Employment and Economic Growth

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As the Covid-19 pandemic began to spread earlier this year and most of the country went into lock-down, the U.S. Congress passed on March 27, 2020 a historic \$2 trillion financial package to buttress the U.S. economy. One of the key provisions is the “paycheck protection program”, which extended fully forgivable loans through the U.S. Small Business Administration (SBA) to small business recipients who continued to pay their employees at salary levels of at least 75% while they sheltered at home. In short, Congress recognized the large role that small businesses play in the economy and acted quickly to support them and the salaries of their employees.

The Key Role of Small Businesses in the U.S. Economy

The U.S. has a population of close to 330 million. Of those, approximately 158 million were employed at the beginning of 2020¹, with 108 million employed by the private sector² and the rest employed by the nonprofit sector, including federal, state and local governments.

Almost all of the private sector companies in the U.S. are small businesses. A small business is commonly considered to be one with fewer than 500 employees, although 89% of small businesses have fewer than 20 employees.³ In 2016, there were 30.7 million small businesses, including those with no employees – just a sole proprietor.

In 2018, small businesses comprised approximately⁴:

- 99.9% of all businesses;
- 99.7% of firms with employees;
- 47.3% of private sector employment (60 million persons of 126.8 million then employed by the private sector);
- 40.7% of private sector payroll;
- 97.5% of exporting firms; and
- 33.3% of known export value.

In addition to employing almost half of the private sector workers, small businesses are the principal creators of new jobs. During the period 2000-2018, small businesses created 9.6 million net new jobs while large businesses created 5.2 million.⁵ Moreover, they are more likely to develop emerging technologies than large business firms. While they account for only 8% of the patents issued in the U.S., they account for 24% of the top 100 emerging technology clusters.⁶

Organization of Small Businesses

In the U.S. federal system, small businesses are usually organized under the laws of the state where their principal operations are located. However, many businesses choose to organize under the laws of the State of Delaware. Delaware has developed a state industry by making itself attractive as a jurisdiction in which to organize a business and, in return for charging higher fees, provides 24-hour response and excellent service⁷. Enterprises organized there may operate anywhere in the country.

Each state's law provides a variety of forms of business organizations from which to select, including:

- Corporation;
- Limited liability company;
- Non-profit corporation;
- Cooperative; and
- B corporation (which has a dual purpose – a stated public benefit and a financial profit and which is now a recognized form of organization in most states).

The bulk of the rules of operation of each of these types of entities are included in the state law. Therefore, the organizational documents include only those items that the persons organizing the entity are permitted by law to select themselves, such as, for example, the name of the enterprise, the type of organization, and the number of directors or managers and how returns are allocated among owners and employees. For considerations on the form of organization see "[Legal Structures for the Non-state Sector According to the Type and Scale of the Activity.](#)" In addition to operating under the laws of their state of organization with respect to its activities as an organization, each enterprise must comply with all of the other federal, state and local regulations that impact the operation of its business activity, including health, safety and environmental rules.

The Role of Government

In an economy with a private sector, a central way in which the state participates in private economic activity is by taxing it, always aiming for a balance that produces revenues for its coffers but does not discourage the activity. Since business organizations are legal persons distinguishable from their owners and employees, they (in addition to their owners and employees) must comply with all applicable federal, state and local laws and pay taxes to the state and local governments in which they operate, as well as to the federal government.

In addition to authorizing the creation of business organizations, states influence their activities through laws and regulations, which are implemented by designated state regulatory agencies. Businesses in turn lobby the governments that regulate them to pass legislation that allows them to operate more efficiently and compete internationally.

Much of the lobbying by enterprises is done through trade associations that represent the interests of the particular industry. Small businesses can join one or more of a long list of trade associations that represent their interests and provide counseling and other services, depending, for example, on their size (e.g., StartUpNation), their industry (e.g., International Franchise Association), and their ownership (e.g., Women's Business Development Center).

Government also influences indirectly the shaping of business activity through the use of its taxing power, creating tax incentives and disincentives for entrepreneurial activity. In addition, state and local governments offer tax breaks and other incentives to motivate business to locate or relocate to their area if they believe the business activity will create significant employment opportunities for their residents and generate revenues for their treasuries.

The Small Business Administration

Many, if not all, states have agencies tasked with assisting the creation and operation of small businesses. In addition, the federal government has the Small Business Administration (SBA), which is the only federal government agency dedicated exclusively to promoting small businesses. The SBA provides education, counseling, loan capital and contract expertise to small businesses.

Using a simple and instructive web platform, the SBA provides information and interactive tools to entrepreneurs on how to:

- Do [market research](#) to identify a business need, find customers, conduct a competitive advantage analysis, and pick a location or expand to new locations;

- Prepare a [business plan](#) to obtain loans from banks and capital investments in the business;
- Select the [form of organization](#) and register under state law;
- Develop a [marketing plan](#);
- Protect its [intellectual property](#);
- [Comply with all applicable laws](#) – providing a list of the principal laws that govern the particular activities of the business and the governmental agencies implementing those laws;
- [Manage its finances](#), open bank accounts, obtain capital, obtain loans from the federal government and disaster assistance;
- Get [federal and state tax identification numbers](#) for all of its business activities, as business employers are responsible for withholding income taxes from their employees, collecting taxes from consumers when selling their products and remitting those funds promptly to the federal, state and local governments;
- [Hire and manage employees](#) in compliance with federal and state labor laws;
- Obtain government counseling to [export its products](#), by identifying markets and trade shows; developing websites to attract foreign purchasers; and obtaining government subsidies or guarantees for exports;
- Contract to [sell products and services to the federal government](#); and
- Merge, sell or [close a business](#) in compliance with obligations to the government and the business employees.

As a compliment to the resources available on the web platform, the SBA has offices throughout the country where it conducts business training sessions on the variety of issues that small businesses face and provides one-on-one counseling on all aspects of running a small business.

The SBA is not a one-stop shop (*ventanilla única*) for organizing a business. It does, however, provide key information and support to entrepreneurs in organizing, managing, and expanding businesses. Many businesses choose to operate without the assistance of the SBA, and instead rely on their own resources, including their lawyers and accountants, the local chamber of commerce, and the trade associations which they join to advise them on the many aspects of organizing and operating a business successfully in compliance with law.

In the U.S., federal, state and local governments appreciate the fundamental role of the small business sector, as it employs almost half of the working population. Moreover, small businesses are a primary producer of new technologies that contribute to the growth and strength of the U.S. economy, generating wealth for all of the communities in which they operate.

1 See: [statista.com](https://www.statista.com)

2 See: [Pew Research Center](https://www.pewresearch.org)

3 See: [Small Business and Entrepreneurship Council](https://www.sba.gov)

4 See: [2018 Small Business Profile](https://www.sba.gov)

5 See: [Office of Small Business Administration, Frequently Asked Questions](https://www.sba.gov)

6 See: [An Analysis of Small Business Patents by Industry and Firm Size](https://www.sba.gov)

7 See: [Why Are the Majority of U.S. Companies Incorporated in Delaware?](https://www.sba.gov)