Small businesses are the backbone of the local economy. They have also been responsible for nearly two-thirds of the nation’s new jobs since 2010, according to the U.S. Small Business Administration. Yet entrepreneurship, as measured by business startups and self-employment, has been on a persistent decline for decades. One way for policymakers to understand what helps or hurts the formation of small businesses and their growth is to learn about the local business climate as perceived by business owners.

How Friendly Are We?
According to Thumbtack.com’s Small Business Friendliness Surveys since 2012, Texas has consistently been ranked the top state for friendliness toward small businesses. Major metro areas in Texas, namely Dallas, Austin, Houston and San Antonio, have also received top 10 ratings among more than 300 cities in the nation.

The latest survey drew upon survey data from about 18,000 small business owners across the United States. The rankings of business friendliness are determined using scores on a broad range of policy and economic factors reflecting: ease of starting a business, ease of hiring or hiring costs, business regulations, and the extent of business networks and support.

Business owners in Texas gave an A+ for their state’s overall business environment. The state...
also earned the highest rating of A+ for different aspects of regulatory compliance. The lowest rating was a B for the ease of hiring and hiring costs. Because of rapid economic growth due to the recent shale oil boom, an increasingly tight labor market has been a major challenge for the state’s businesses. A recent survey of Corpus Christi business owners by American Bank and South Texas Economic Development Center also highlighted rising employee wages as a pressing issue for local businesses.

Entrepreneurs in Texas and Utah have given their states the top ratings every year that the survey has run. On the contrary, California and Connecticut have been among the least business friendly states. With an F for overall friendliness, both states scored an F in government regulations from the 2014-15 survey, particularly regarding employment and the tax code. Texas is just the opposite: Business owners gave an A or better for all aspects of state and local regulations with which they have to comply.

The following are the key findings of the Thumbtack.com surveys:

- State and city governments that actively provide local business training and focus on ease of regulatory compliance are perceived as being friendliest to small business.
- Perceptions of a local or state government improve with a high quality, easy-to-navigate website that also provides useful information, including regulations.
- Professionals who are not required to have a license judge their governments in a more favorable light. However, respondents who are required to carry a license but indicate that complying with licensing rules is “very easy” are just as favorable toward their governments as those who are not required to have a license at all.
- Business owners’ perceptions of their tax burdens are among the least important factors in judging governments.

**Business Training Programs**

Among those policy factors affecting the perceptions of a government’s friendliness toward small businesses, the extent of training opportunities has the largest impact. In the 2013-2014 survey, more than two-thirds (76%) of the respondents who indicated they were aware of local government sponsored business training programs ranked their local government as “somewhat” or “very supportive” of their business. Among those respondents who indicated their governments didn’t offer training programs, 39 percent perceived local government as supportive.

Another critical factor that affects overall friendliness is the ease of regulatory compliance, from licensing and health to employment and zoning. Tax rates and complexity also matter, but the overall tax burden is among the least important factors to small business development.

Given those survey results, Thumbtack.com suggests three things local governments can help improve friendliness and support small businesses:

1) **Offer business training programs**

Training programs, offered either by the local government or civic organizations like the Chamber of Commerce, can help people who have developed an expertise in their vocation -- whether it is plumbing or web design -- improve their business strategy, better understand their markets, and learn about new technology.

2) **Simplify licensing compliance**

Second to training programs that affect small, service-oriented businesses is the burden of licensing regulations. Businesses are actually supportive of professional licensing rules as a form of consumer protection or to fence off competitors. What they want from their local governments is better enforcement as opposed to piles of red tape.

**Rankings of Factors Affecting Business Friendliness**
3) Provide easy-to-navigate websites
Business owners are more likely to rate their city governments as supportive when they have dealt with a government website that is easy to use and they can perform a variety of tasks, such as renewing business licenses online.

Why Friendliness Matters?
In a recent Huffington Post column, Jon Lieber compared Thumbtack’s Friendliness scores with the latest job creation rates across different states. The scatter chart reproduced above clearly shows that business friendliness indeed matters: States with a higher friendliness score tend to have a higher job creation rate. This positive relationship exists because a business friendly environment is likely to nurture more startups and help small businesses expand.

So there is room for local governments to promote sustainable economic growth through supporting local business development. The business environment of Texas might have played a role in its economic and job growth far ahead of the rest of the nation in recent years.

Local Business Growth
Between 2000 and 2013, the number of businesses in Texas expanded 16 percent, nearly three times the national average. For Corpus Christi, the growth was 10 percent. As with other Texas cities, local businesses might have enjoyed fewer state and local regulations along with no income tax. On the other hand, as the Thumbtack surveys suggest, local entrepreneurs have faced relatively fewer networking opportunities, government resources and support, and greater difficulty to get small business loans given the relatively smaller size of the city.

Even within Corpus Christi, small businesses have followed the directions of population and income growth. While the city as a whole has 10% more businesses today than 15 years ago, business has actually been declining for a number of areas within this community. The South Side boasts strong growth in population and household incomes. Not surprisingly, the number of businesses in that area has more than doubled since 2000.
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