

“Inequity of the Circular Economy”

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Author Note

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ABSTRACT

The Circular Economy discusses the role of production and consumption with the role of money and finance when shifting from fossil fuels to the use of renewable energy or goods. It has been called the revamp of the tools used in economic performance measurements. In this paper, analysis of the Circular Economy will be concentrated on over taxation, lack of support for small business in the sustainability field, and difficulty protecting intellectual property as related to burdened costs. The analysis is to explain the constraints and challenges associated with small businesses within the competitive market. Small businesses are limited geographically, restricting product and service range, and are withheld the access to specialized legal and economic information on competitive practices. Regulatory agencies and policy controllers must develop the appropriate measures to protect and provide small businesses with equal competitive regulation that is given to large firms. With the use of academic journals, news articles, judicial court cases, and business law the research will show the current difficulties of protecting a company's brand and competitiveness. The results will show significant financial, judicial, and capitalistic challenges that exist for small businesses to operate efficiently and effectively within the Circular Economy.

INTRODUCTION

The 2011 U.S. Census Bureau data showed that the United States currently has 5.69 million employer firms, with 99.7 percent of those firms having less than 500 workers, and 89.8 percent having less than 20 workers (Small Business Facts & Data, 2015). Small business is the make-up and image of American business, but face challenges when it comes to competitive regulation. Large corporations differ with their goals and operations, while pursuing profit-maximization. The regulations and policies are aimed towards protecting these large corporations and seem to steer away the entrepreneurial spirit that drives the American economy. The equality of these laws needs to be developed by the country's regulators,

legislators, and policy makers to protect all businesses. With the evolution of business practices become more important to be focused around renewable energy, sustainable products, and environmentally conscious, these new regulations must be addressed.

This paper analyzes how small business is the forefront of the American economy and how they are leading the sustainable business, Circular Economy movement. It will discuss how competitive policies, regulations, and enforcement need to be the focus of the government in order to protect small business moving forward. First, it will provide the understanding of how small business is characterized, and then move into the competitive landscape, concentrated in sustainable practices. Finally, it will examine the issues that small businesses face and how regulations can be improved to insure future growth.

SMALL BUSINESS CHARACTERISTICS

Small business is defined by two widely used standards, fewer than 500 employees for manufacturing and \$7.5 million in average annual receipts for nonmanufacturing (Summary of Size Standards by Industry Sector, 2014). The definitions differ from country to country, but are generally referred to as small-scale, independently owned firms that were established for an individual's economic or social gain (Schaper, 2009).

People tend to have their own interpretation of small business, but most will say that it is the make-up of the American economy. Typical examples are local stores, law firms, restaurants, etc. Being called small business, they tend to possess less capital, employees, and product/service reaches. Most have small market share and low profit margins, restricting their financial ability, because of high individual tax rates and burdened costs on small businesses.

Though small businesses may not have the financial power of larger firms, they succeed through other categories. They have the ability to be customer focused, clearly define goals and operations, and concentrate on employee satisfaction. The entrepreneur possesses the focus and drive to succeed, due to the business being considered their life's work and passion. This gives the small business the structure of concentrating on what is important to the owner and not simply focusing on maximizing profit.

Currently, small businesses are driving the sustainable, Circular Economy movement by concentrating their efforts into addressing energy, resources, and the environment. They are the forefront of the movement, due to the need of focusing intently on their resources, costs, and impact within the local community. It is becoming more important to develop protection for these small businesses by evolving the regulations and policies through tax incentives, financial support, and larger voice within the government.

Although small business is a large portion of the American economy, they tend to face many issues with conception, growth, and life span. These issues can range from starting the business for the wrong reason, poor management, insufficient capital, location, lack of planning, overexpansion, or simply not being connected through the internet (Schaefer, 2015). It takes passion and drive to start a business, but with over 50 percent failing in the first year and 95 percent failing with five years (Small Business Facts & Data, 2015). Does anyone see something

wrong with that? Is the failure really due to the issues listed above or from regulations and policies within the economy?

COMPETITIVE LANDSCAPE OF SMALL BUSINESS SECTOR

Competition is what drives the business sector to push towards innovation, meeting consumer needs, and the focus of survival. The capitalistic market allows for open competition that is free and fair, allowing entrepreneurship to thrive. Focusing on the Circular Economy and sustainability, competitive policies are fresh and under development, posing issues for small businesses to survive. They are pushing the movement forward, but are struggling to maintain position against larger firms. American policies and regulations have hindered the ability of these smaller companies to move forward.

The Obama Administration over the past few years has been developing sustainable focus into the business sector (Youth Sustainability Challenge, 2015), but needs the help of citizens and companies to move to the next level. By analyzing sustainable practices that current companies and new technologies have created, there is huge benefit to improving the Circular Economy. There are challenges and resistance to this movement, but when analyzing the benefits, they greatly outweigh the costs. Financial assistance and tax incentives should be provided to the companies that focus on improving the sustainable movement.

One example of the challenges being faced in the sustainable, small business sector is the protection of intellectual property and business operations. For example, copyright infringement has become a huge issue for not only large firms, but small ones also. The difference is that large firms possess the financial resources to challenge copyright infringement and the small ones do not. Policies and regulations to protect intellectual property seem to only be in place for the larger firms and make it more difficult for small business to fight back.

A business owner in Dallas stated ““I have a great lawyer when I need and can afford him. That’s the most prohibitively expensive part of small business, in my experience” (Nerd Wallet). Small Business Trends states, 64.1 percent of small companies view trade secrets as the most important form of intellectual property protection, followed by trademarks at 56.3 percent, and copyrights at 47.3 percent. Utility and design patent importance came in at 32.6 and 30.5 percent, respectively. Small businesses see the importance of intellectual property, but are unable to protect themselves from theft due to burdened costs.

Small businesses lack the resources to track down theft, bring the case to court, and receive fair compensation. For example, Mactech, a company that manufactures highly specialized machine tools, decided that the costs of going to court would not outweigh the benefits due to finances (Quick Books). People are adapting their abilities to move around the restrictions imposed by patents, trademarks, and copyrights, which are creating huge issues for small business.

Larger corporations possess the political sway, access to government information, education, and assistance. Small business is then placed at a disadvantage to compete. Large firms secure loans, sell bonds & stocks, receive incentives, etc. Small businesses seek financing for startup costs, inventory increases, business expansion, or shoring up the business. The lack of financial

support creates a restraint on success, resulting to failure. Small business loans can create problems ranging from too little or too much capital, or too much debt. These loans bring on high interest rates and quick expected payback, placing burdens on the entrepreneur's business. So when the numbers are shown that 50 percent of small businesses fail within one year and 95 percent fail within five years, is it because of competition, finances, or policy favor to large corporations?

So how does all of these relate to the Circular Economy? The inequities of the traditional economy, over the years of traditional business/corporation setting, have made progress into solving the issues that they have faced. More regulations and policies have been introduced to help support the traditional economy, but not the Circular Economy. The Circular Economy is facing more issues due to the new ideas and transitions that have caused regulators and policy makers struggle to adjust. They do not know how to create or implement better practices for these companies, which comes from the difference of opinion with governmental agencies and politicians on renewable energy and sustainable products. Also, with overwhelmingly amounts of funding and support from the fossil fuel industry, many people do not want to move away and convert time and money into changing business practices, regulations, or policies.

REGULATIONS & POLICIES

There are issues that are faced by regulatory agencies and policy-makers due to the wide array of small businesses. The Obama Administration made progress in 2011 when they reviewed policies and regulatory burdens on small businesses, showing that businesses with fewer than 20 employees were spending 36 percent more than larger firms to comply with federal regulations (Office of Advocacy of the U.S. Small Business Administration SBA; President Obama Issues Executive Order On Improving Regulation and Regulatory Review, 2011). According to the Government Accountability Office, S Corporations and Partnerships pay a percentage of income more than double those large corporations. This is due to corporate entities receiving tax benefits, while S Corporations and Partnerships pay taxes at an individual rate. Average corporate tax is 12.6 percent compared to 31.6 percent and 29.4 percent that S Corporations and Partnerships pay, respectively.

President Obama has called for reducing the taxes on corporate entities, while these large corporations report international revenues in countries with lower tax rates. Large corporations are hurting small business with these practices, for example the Huffington Post stated:

“Many corporations, including Apple, Google, and Amazon, wind up paying less than the top Federal tax rate of 35 percent, in part because they report international revenues in countries with lower tax rates, known as tax havens. Some companies, such as General Electric have been known to pay negative tax rates, meaning they actually gain money from paying taxes due to federal tax subsidies and other tax benefits.”

Small business will face the worst from reforming the tax code, with corporations facing the benefits, instead of reforming the individual tax rate to benefit the business majority in America.

The Small Business Administration is an independent voice within the government that voices concerns and presents the views that small businesses face. They have been attempting to review how to reduce regulatory burdens, but are facing challenges. Small business is big, and according to the United States Small Business Administration this is the breakdown:

- The 28 million small businesses in America account for 54% of all U.S. sales.
- Small businesses provide 55% of all jobs and 66% of all net new jobs since the 1970s.
- The 600,000 plus franchised small businesses in the U.S. account for 40% of all retail sales and provide jobs for some 8 million people.
- The small business sector in America occupies 30-50% of all commercial space, an estimated 20-34 billion square feet.
- The number of small businesses in the United States has increased 49% since 1982.
- Since 1990, as big business eliminated 4 million jobs, small businesses added 8 million new jobs.

So why has protection of small business declined, if they make up the majority of business in the United States.

In order to help protect small business by evolving policies and regulations, there must be more analysis into the small business sector. Small business needs to have a voice within the government, and this lies on political representatives of counties, states, and nation reaching out to the small businesses that make-up America. Large firms do not represent the majority of business within the United States, so why do they have the major voice?

Providing financial assistance and tax incentives to those companies that advance the Circular Economy are important. Resources are becoming depleted, the environment is being destroyed, there is over consumption, pollution, and the list goes on. Small business is pushing this movement and by providing assistance or incentives, larger firms will follow.

The Obama Administration has signed on to the Rio+20 United Nations Conference to reduce poverty, advance social equity, and ensure environmental protection. The focus is increase jobs, energy, sustainable cities, food security, sustainable agriculture, water, oceans, and disaster readiness (United Nations). By analyzing the United States small business sector, the Obama Administration will be able to see the movement that has already begun. They are able to partner with these companies and advance in the direction of the Rio+20 by improving small business practices.

Small business must evolve into believing in their importance to business within America and push for these changes. Bringing data and research-based evidence on the burdens that effect small business is vital to moving forward. They need to be able to have the same access of

government information and assistance that is given to larger firms or the definition of America's free and fair market is not true.

CONCLUSION

Small business is essential to the American economy. They are the majority holder in the business sector and need to be represented that way. Larger firms are able to handle competition, regulations, and policies much easier than small firms, but that must change. Small business is the forefront of the sustainable, Circular Economy movement and must gain assistance from the government to help improve business practices, environmental issues, and overall life improvement of citizens.

There is no easy fix to these issues; there are challenges that lie ahead for policy makers and regulatory agencies. It cannot be fixed overnight, but with a clear strategy it can be done. The strategy must be reforming individual tax rates, supporting small business inception with access to information and finances, and improving protection of intellectual property by reducing costs. The investment into understanding and driving these changes will be substantial, but the cost of not doing anything will have a much greater impact that may not be reversible.

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