



MCNAIR CENTER SURVEY: IMPACT OF COVID-19 ON SMALL BUSINESSES IN HOUSTON AND THEIR EXPERIENCE WITH THE PAYCHECK PROTECTION PROGRAM (PPP)

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Executive Summary

The COVID-19 pandemic has impacted small businesses around the nation in unprecedented ways. Businesses all across the country have had to shut down completely or operate at lower capacities to slow the spread of the COVID-19 virus. This has resulted in businesses losing substantial revenue, and, in many cases, business owners have had to apply for financial aid, lay off employees, etc. The purpose of this report is to highlight the data trends gathered from a survey administered to small businesses owners in the Houston, Texas area by the Baker Institute McNair Center for Entrepreneurship and Economic Growth. The survey aimed to gather a snapshot of small business operation characteristics (e.g., the number of cash buffer days, the types of cash flow tools used, the financial institutions patronized, etc.), the impact of COVID-19 on business operations and functioning, and small businesses' perspectives on all aspects of the Paycheck Protection Program (PPP),¹ a business loan program established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in late March 2020.

Survey Methodology

The survey was conducted in late June and early July 2020. This time period overlapped with the U.S. Congress' decision to approve an additional \$310 billion for the PPP and to change the stipulations surrounding PPP loan forgiveness.

Researchers requested that their contacts at SCORE Houston² and British-American Business Council³ disseminate an anonymous link to the digital survey, which was hosted on Qualtrics, an online survey platform. Research participants were promised an Amazon gift card as compensation for their time and effort. Despite the incentive, the response rate of the survey was low. Researchers received completed surveys from only 66 participants after surveying about 1000 small business owners.

Key Survey Findings

- Small businesses' financial resilience was evaluated by measuring their cash buffer days. Of the small businesses who responded to the survey, 18.8% had less than two weeks of cash buffer days. About 57.8% of small businesses had cash buffer days that ranged from zero to 45 days.
- The survey data indicates that the age of a business and its cash buffer days have an association ($r = 0.30$, $p < .05$); specifically, older organizations tend to have more cash buffer days than their younger counterparts. These findings suggest that

¹ The PPP loan program was a temporary product added to the existing suite of loan programs offered by the Small Business Administration (SBA).

² SCORE Houston offers free professional mentoring to small business owners and is an organization affiliated with the SBA.

³ British American Business Council is a transatlantic business network that offers advice on business development.

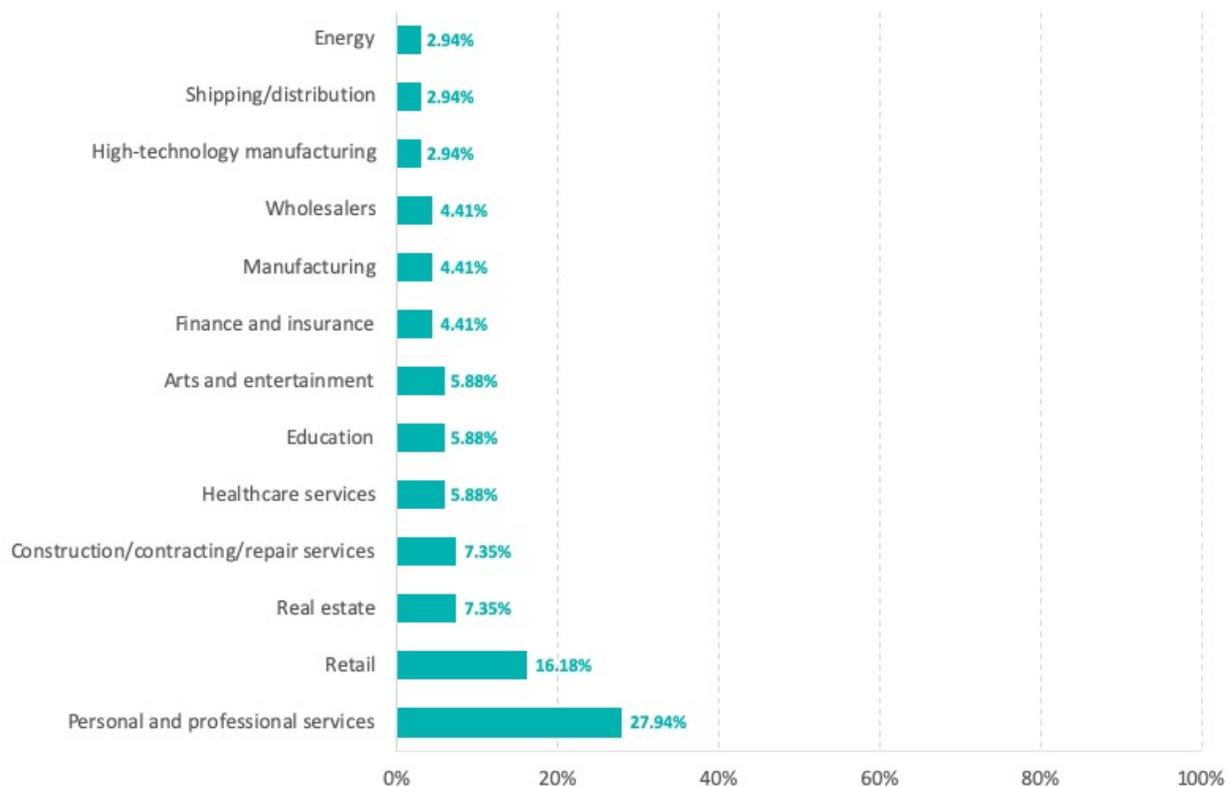
younger organizations are more likely to be vulnerable to a reduction in cash flow compared to their older counterparts.

- More than one-third of survey participants did not have a formal payroll system in place. The majority of small businesses whose applications were declined by a lender did not have a formal payroll system in place. This trend suggests the PPP favored businesses with payroll systems, as payroll statements were part of the documentation that was required from borrowers. Additionally, borrowers who provided payroll documentation signaled to the Small Business Administration (SBA) and lenders that they were capable of tracking the amount of PPP loan funds being used for payroll purposes.
- The majority of survey respondents (51.5%) observed that the COVID-19 pandemic had an extremely negative impact on their organizations.
- In an attempt to ameliorate the adverse impact of the pandemic, 68.2% of small businesses who responded to the survey applied for government financial assistance programs. The next most popular strategy adopted by small businesses to mitigate financial adversity was to dip into personal funds to sustain organizational functioning. Surprisingly, given the 9.9% unemployment rate in the Houston metropolitan area (including the surrounding suburbs of Sugar Land and the Woodlands), the survey data shows that only about 18% of the respondents opted to furlough or lay off staff.
- A substantial portion ($\approx 77\%$) of the respondents applied for a PPP loan, and about 71% of those who applied were approved for the entire amount they requested or for an amount less than what they requested.
- Community/local banks were the type of lenders that most of survey participants (49%) had success with in terms of processing their loan applications. The data also highlights that community/local banks successfully processed more loan applications from small businesses who were not prior customers in comparison to large banks.
- Among small businesses who had their loan applications processed successfully, the majority of them (55%) gained success after approaching just one financial institution. Of these businesses, 44% had their applications processed in fewer than seven days by lenders. The majority of small businesses whose loan applications were successfully processed received both a notification about the status of their loan application with the SBA and their loan money in their respective bank accounts in less than a week.
- Of the small businesses surveyed, 80% used their PPP loans for paying the salaries and benefits of employees who were not laid off or furloughed. Rent and lease payments were the next most popular use of loans.
- Small businesses ($\approx 66\%$) noted that the PPP loans enabled them to sustain/resume their organizational functioning. A similar proportion of businesses also observed that they were able to use the loan funds to retain their employees.

- A majority of small businesses who received the loan thought it was easy to comply with the stipulations laid out by the SBA regarding the use of the PPP loans. As they found it easy to comply with the PPP loan regulations, they also expect a substantial portion (if not all of the loan) to be forgiven by the SBA.
- Although the majority of small businesses understood the instructions for completing a borrower application form, only about 41% understood the terms and conditions related to PPP loans with little to no difficulty.
- Participants also identified a few of their concerns with the PPP loan product and the open-ended application process. The concerns included frustration with having to adapt to constant changes in rules, lenders being slow with application processing, the loan amount granted not being sufficient to weather the adverse financial impacts of the pandemic, and the loan not being suitable for nascent businesses.

Industry Membership of Small Business Survey Participants

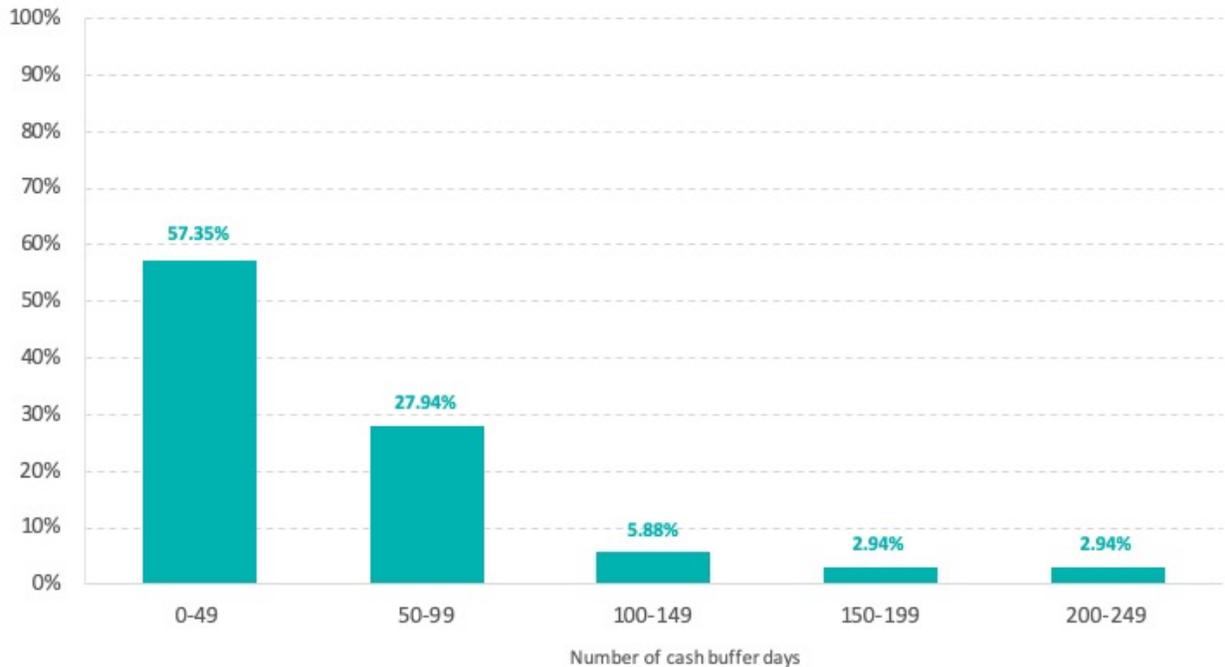
Figure 1. Industry Membership Distribution of Survey Sample



As shown in Figure 1, survey participants came from a variety of industries. However, most of the participants owned businesses within the personal and professional services industry. The next highest representation was from retail, followed by real estate.

Cash Buffer Days

Figure 2. Distribution of Number of Cash Buffer Days Held by Small Businesses



Cash buffer days signify the financial resilience of a small business; specifically, they indicate the number of days a business can meet its expenses using savings/cash if its income flow were to stop.

On average, the small businesses who participated in the survey had 50.7 cash buffer days, and the median number of cash buffer days was 30. Although the average number of cash buffer days was slightly shy of two months, 18.8% of participant small businesses had less than two weeks of cash buffer days in reserve. Additionally, a substantial proportion (~57%) of small business respondents held cash buffer days that ranged between zero and 45 days. These findings are consistent with existing trends. Data from a recent study of 597,000 businesses noted that small businesses had a median of 27 cash buffer days in reserve, and 25% of small businesses had less than two weeks worth of cash buffer days in reserve.⁴

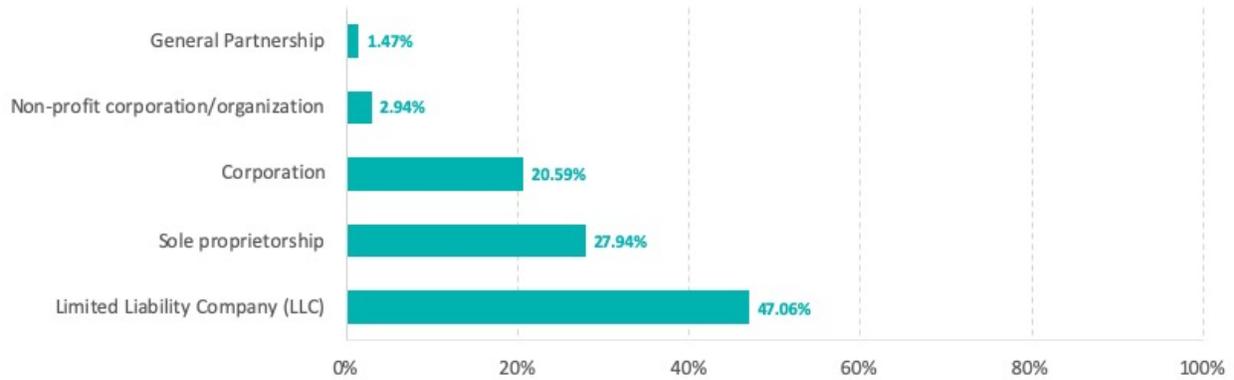
Full-time Employees

Small businesses who participated in the survey employed five full-time employees on average; however, the number of full-time employees of the entire sample ranged between one and 50 employees.

⁴ JP Morgan Chase & Co. Institute, "Cash is King: Flows, Balances, and Buffer Days," 2016, <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/jpmc-institute-small-business-report.pdf>.

Business Structure Distribution

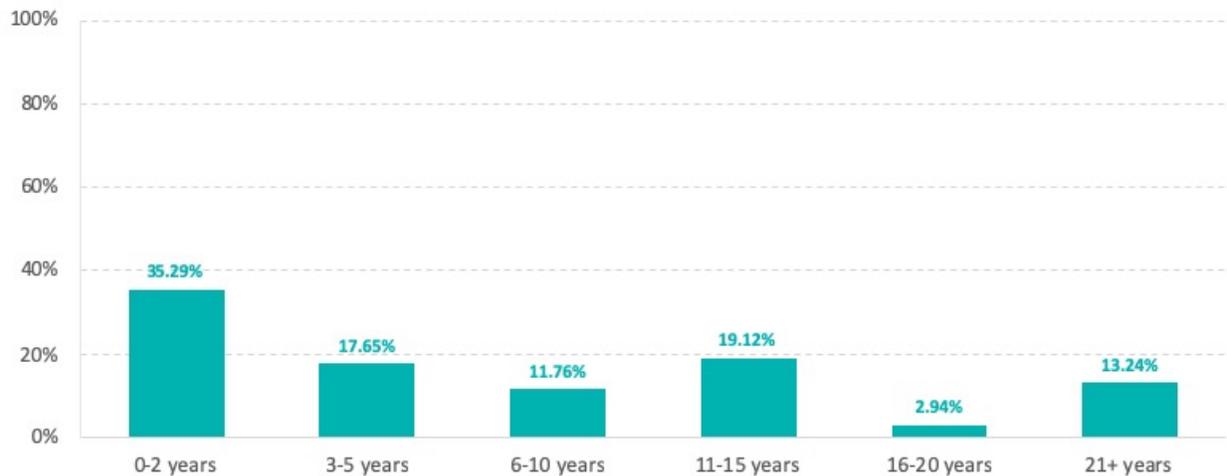
Figure 3. Business Structure Distribution



Many (47%) of the businesses who responded to the survey are for-profit businesses registered as limited liability companies (LLCs).

Age Distribution

Figure 4. Age Distribution

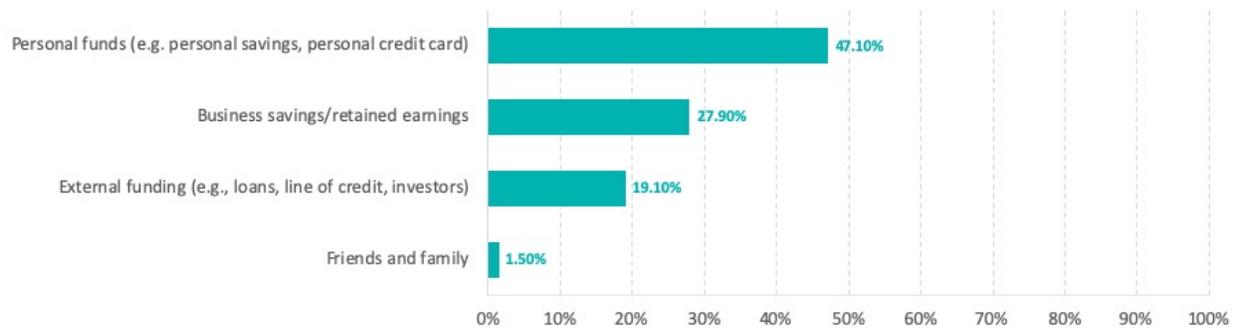


Many of the survey participants are young businesses that have either been in business for less than a year or for up to two years.

The data also illustrates a positive association between the age of a small business and the number of cash buffer days it is likely to hold. The older the small business, the more likely it is to have more cash buffer days in reserve ($r=0.30, p = 0.03$).

Sources of Funding for Small Businesses

Figure 5. Primary Source of Funding for Small Business Organizations, Excluding Operating Income

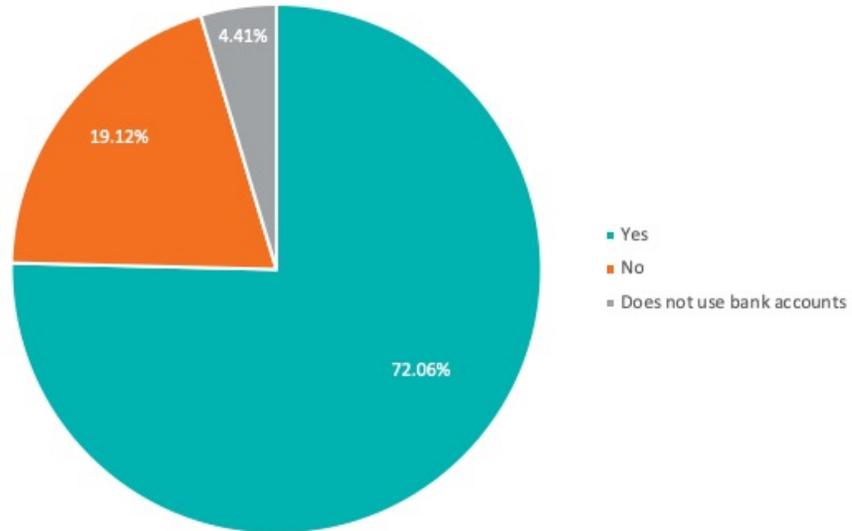


Of the small businesses who responded to the survey, 47.1% noted that they primarily depended on personal funds to support their business. Business savings were the next most favored source of funding (27.9%). These findings are consistent with the conclusions of the Small Business Credit Survey, which notes that retained business earnings and personal funds are the two most common sources of funds that small businesses owners use to support their enterprises.⁵

⁵ Fed Small Business, "2020 Report on Employer Firms: Small Business Credit Survey," 2020, <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>.

Separation of Business and Personal Bank Accounts

Figure 6. Proportion of Organizations Maintaining Separate Business and Personal Bank Accounts

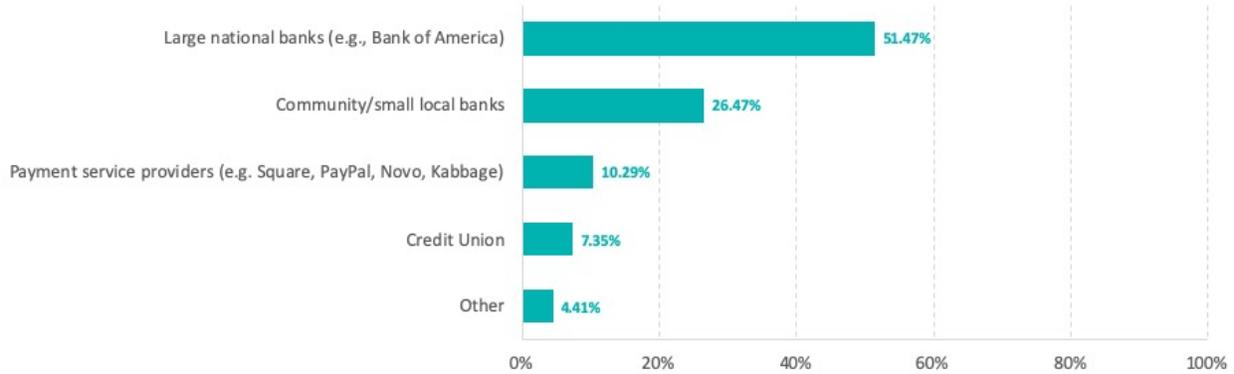


The majority of small businesses surveyed maintained at least one business account that was separate from the personal account of the business owner. Only 19.12% of the small business survey respondents mixed their personal and business finances, which is much lower than the numbers (27%) quoted by other survey research.⁶ A plausible reason for this finding is that the survey participants are members of business resource networking and mentoring programs; these networks, as evidenced on their websites, tend to organize workshops and provide educational resources that underscore the importance of separating business and personal finances.

⁶ Riley Panko, "Small Business Accounting In 2018: 4 Tips to Manage Small Business Finances," *Clutch*, August 28, 2018, <https://clutch.co/accounting/resources/small-business-accounting-tips-2018>.

Types of Financial Institutions Small Business Utilize

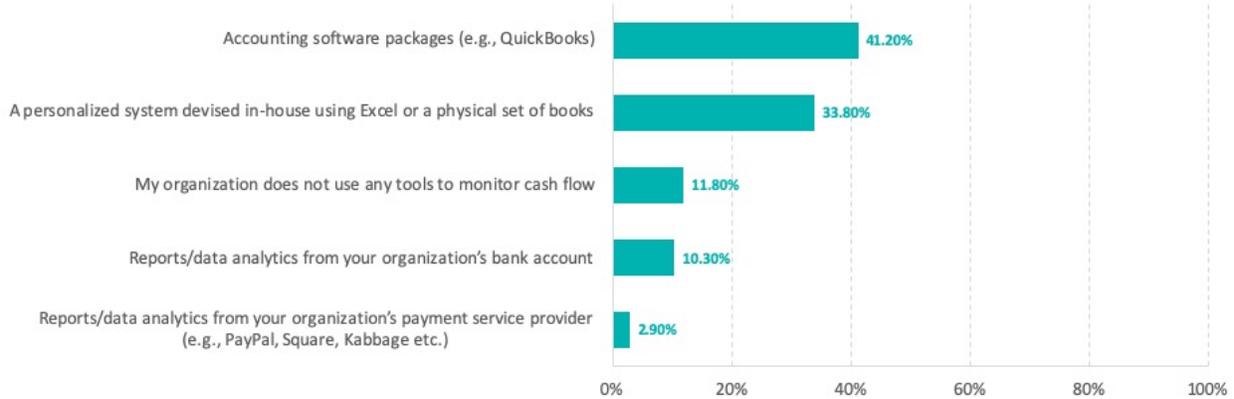
Figure 7. Types of Financial Institutions Primarily Used by Small Businesses



The majority of small businesses (51.47%) who responded to the survey used large national banks for their organization’s financial transactions.

Tools Small Businesses Use to Monitor Cash Flow

Figure 8. Cash Flow Monitoring Tools



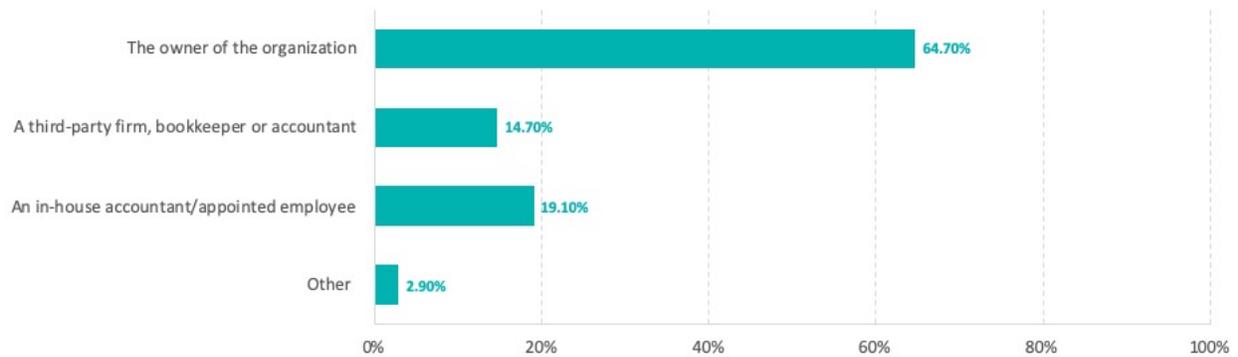
Small businesses who understand their working capital and monitor the flow of their revenue and expenses are likely to survive challenges and expand. Experts in entrepreneurship assert that tracking and maintaining reports of receivables and payables enables business owners to gauge the status of their working capital. Additionally, tracking performance using dashboards or reports facilitates the identification of problem areas and the development of an action plan to address these financial challenges.⁷

⁷ J.P. Morgan, "Optimizing Cash Flow: How to Manage Working Capital," J.P. Morgan, 2015, <https://pdf4pro.com/fullscreen/optimizing-cash-flow-j-p-morgan-497fa9.html>.

Slightly more than one-tenth of the small business respondents (11.8%) do not use any tools to monitor cash flow. Monitoring cash flow is integral for the survival of small businesses and maintaining sound relationships with potential investors and lenders.⁸ Among the survey respondents who tracked their working capital, accounting software appears to be the most popular tool to track cash flow.

Bookkeeping Arrangements at Small Businesses

Figure 9. Small Businesses' Bookkeepers

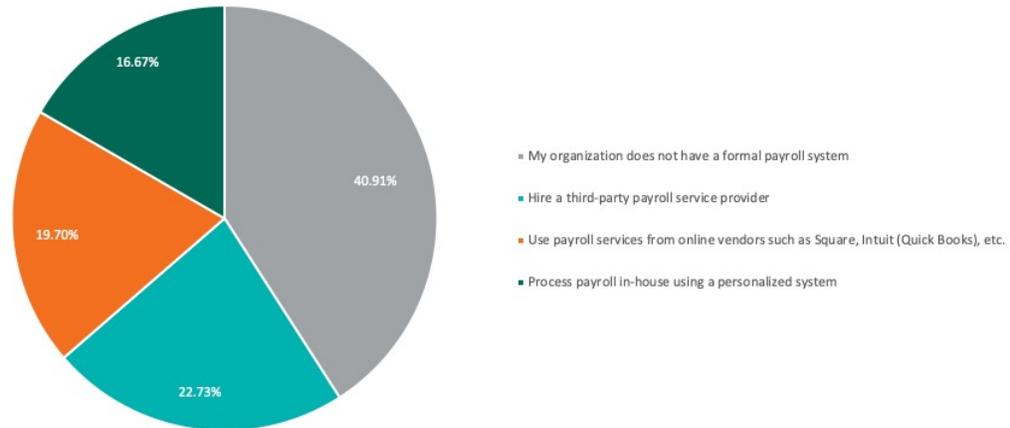


The majority (83.8%) of the small business organizations who responded to the survey managed their bookkeeping functions in-house; either the owner of the organization or an internal employee or accountant maintained the books for the firm.

⁸ Ibid.

Formal Payroll Systems

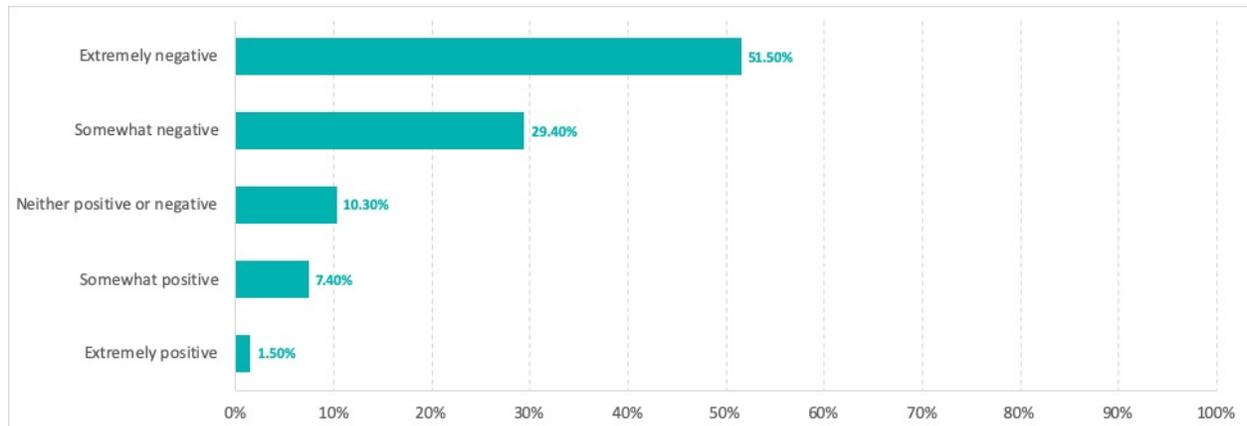
Figure 10. Payroll Arrangements at Small Businesses



More than one-third of survey respondents ($\approx 41\%$) do not have a formal payroll system. However, a majority of them either hire a third-party payroll service, use software from online vendors, or use an in-house personalized system to maintain their payroll functions. As the cell sizes were too small, researchers were unable to conduct inferential analysis. However, the majority of small businesses whose loan applications were declined by a lender also did not have a formal payroll system in place.

Impact of COVID-19 on Small Business Functioning

Figure 11. Impact of the Pandemic on Business Functioning

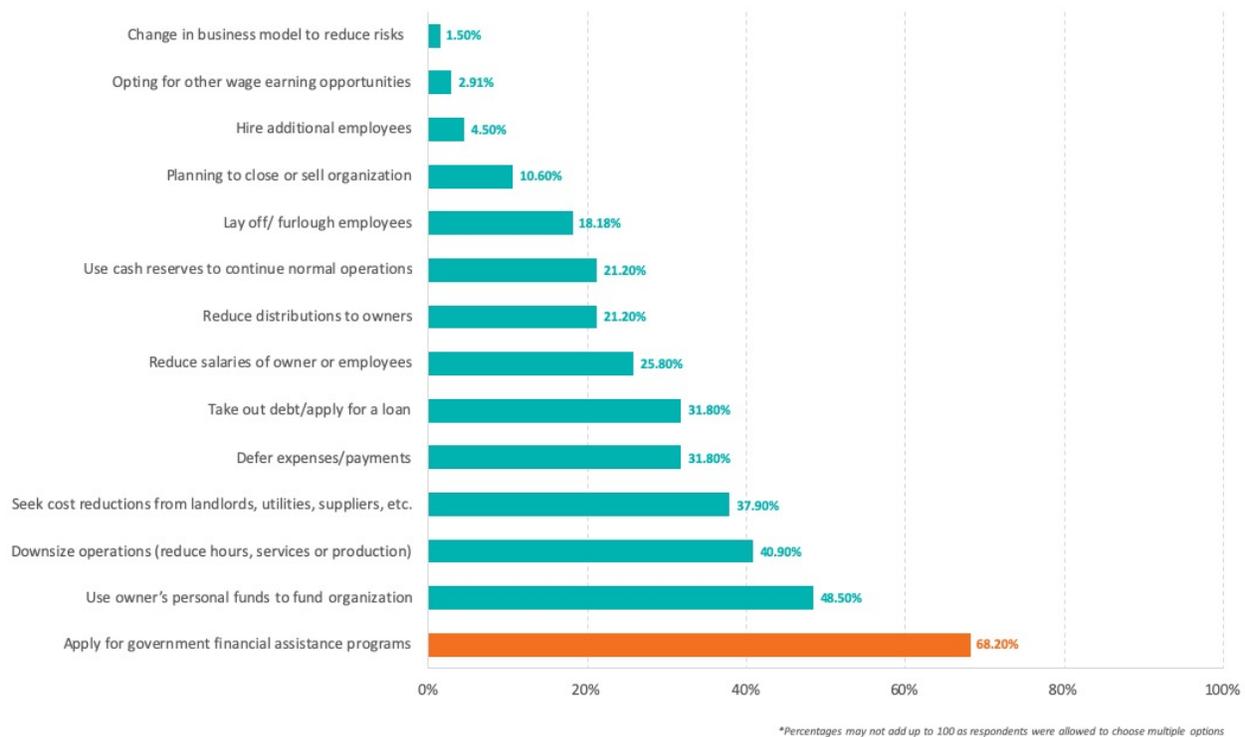


A majority of the survey respondents (51.4%) noted that the COVID-19 pandemic had an extremely negative impact on their respective organizations. Small businesses who expressed that the pandemic had an extremely or somewhat positive impact on their organizational functioning were in the minority.

Response of Small Business to Current and Anticipated Impact of COVID-19

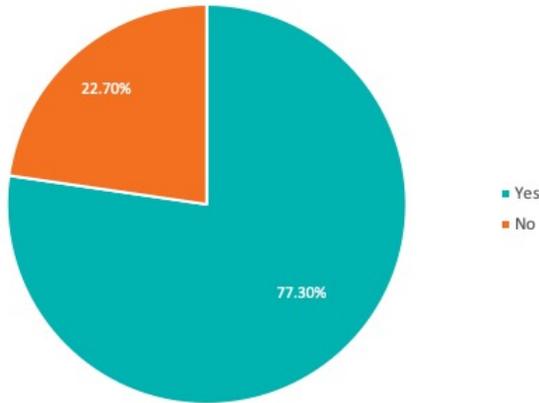
As highlighted in Figure 12, most of the survey respondents applied for governmental financial assistance to help them weather the negative impact of the pandemic on their organizational functioning. Another popular coping strategy among many business owners that responded to the survey was to dip into personal funds to keep themselves afloat. Laying off or furloughing employees was adopted by fewer organizations ($\approx 18\%$). This low number could be attributed to the fact that, on average, small business owners who responded to the survey employed about five employees on a full-time basis and the mode for the sample was one. In other words, most respondents noted that their organization employed one full-time employee and were referring to themselves in this situation.

Figure 12. How Small Businesses are Coping with the Economic Impact of COVID-19



Proportion of Small Businesses that Applied for a PPP loan

Figure 13. Proportion of Small Businesses that Applied for a PPP Loan

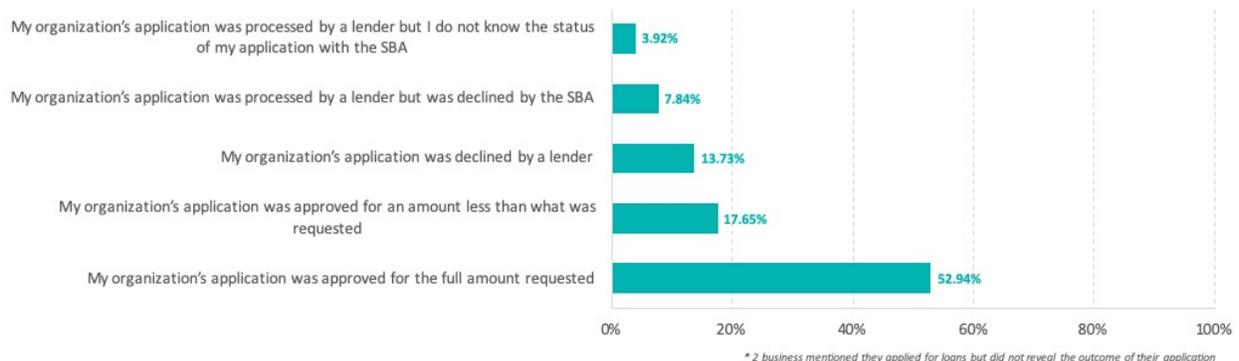


As Figure 13 illustrates, the majority ($\approx 78\%$) of the small businesses who responded to the survey applied for a PPP loan. Among the businesses that did apply for a PPP loan, approximately 53% were approved for the entire amount they requested, and about 18% of the businesses were approved for an amount less than what they requested. Around 22% of the businesses who applied had their application declined either by a lender or by the SBA. A small number ($\approx 4\%$) of businesses had no information on their application status despite having their application processed by a lender.

Loan Amount Approved/Denied

The average loan amount approved in the sample of small business survey respondents was \$47,995.58. The loan amounts that were requested and approved ranged from \$1000 to \$179,000. The average loan amount requested and declined in the sample was \$21,916.67. The loan amounts requested and declined ranged from \$7,500 to \$60,000.

Figure 14. Outcomes of Applying for a PPP Loan



Relationship of Small Business Borrowers with Financial Institutions that Processed their Loan Applications

Figure 15. Types of Financial Institutions that Processed Small Business Loan Applications Successfully

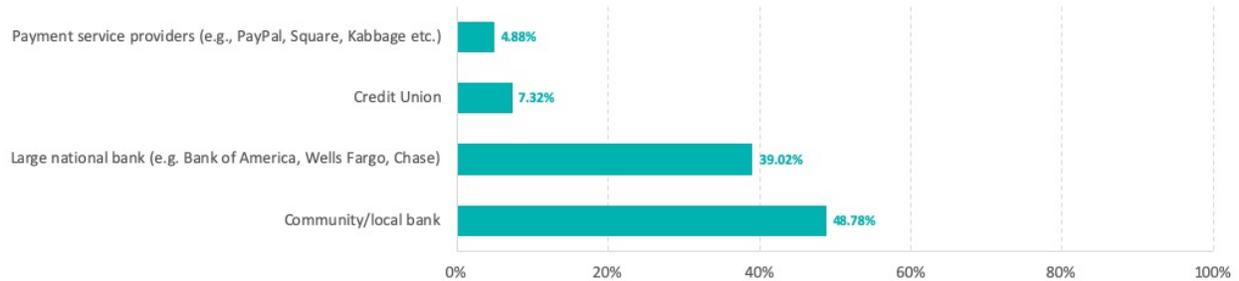


Figure 16. Relationship of Small Businesses with their PPP Lenders

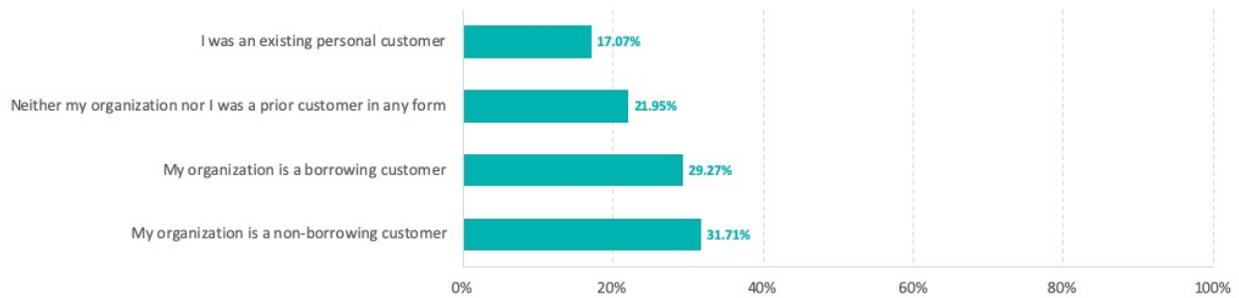
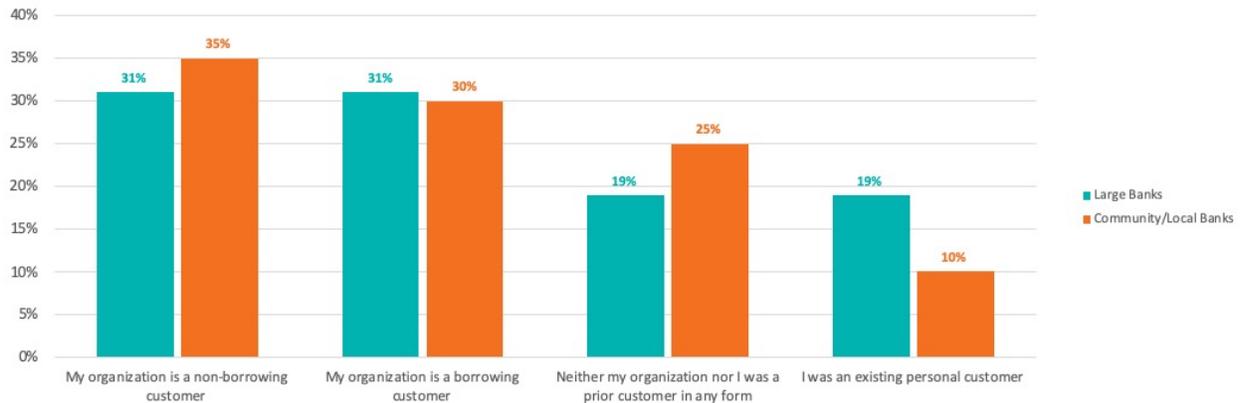


Figure 17. Breakdown of Applications Approved by Different Types of Financial Institutions Based on their Relationship with Small Business Borrowers



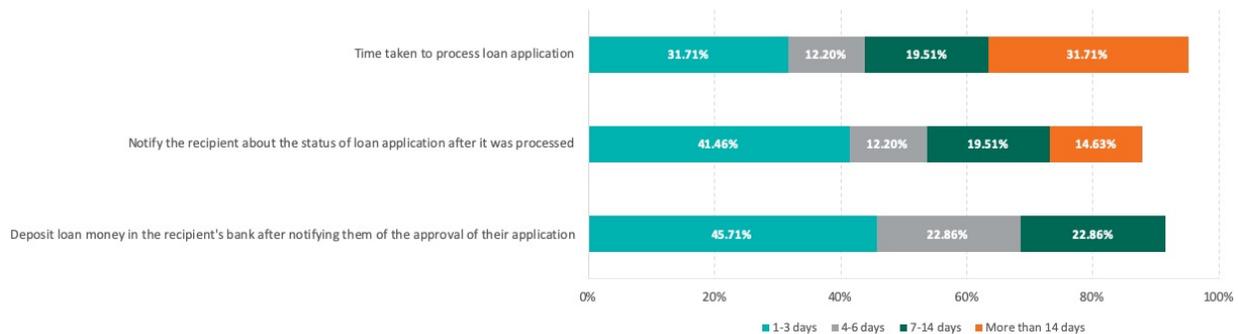
As Figure 15 illustrates, most small businesses in the survey sample who applied for a PPP loan found success in processing their loan application through their community/local banks. The second most favored category of lenders was large national banks. Most of the small businesses' loan applications were processed by a lender with whom they had a non-borrowing relationship (i.e., the organizations perhaps used the lenders for financial transactions or depositing money but did not have any pre-existing loans with them).

As the cell sizes were small, researchers could not carry out inferential analysis. However, further examination at the descriptive-analysis level illustrates that, compared to large banks, community and local banks successfully processed more loan applications from small businesses with whom they had no previous relationship or a non-borrowing relationship.

The above survey items were posed to all survey respondents whose loan applications were successfully processed by a lender, regardless of the status of their application at the SBA level (N = 41).

Timeline and Logistics Associated with PPP Loan Processing

Figure 18. Logistics Associated with PPP Loan Processing and Deposition of Funds

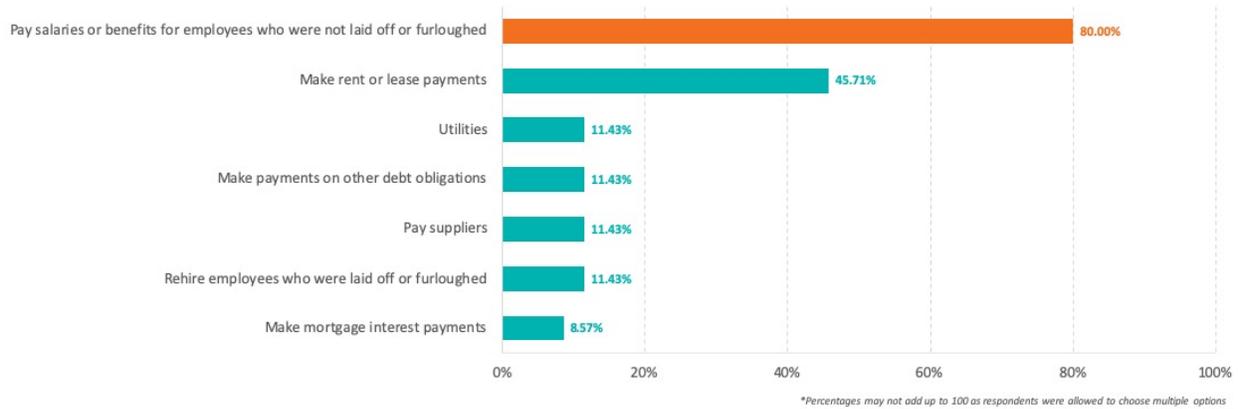


- Among the small business who were able to process their loan applications through a financial institution, 55% of them were able to have their loan application processed successfully by approaching just one financial institution.
- About one-third of the small businesses that applied for a PPP loan (~32%) noted that their loan application was processed in a timely manner (one to three days). A similar proportion of small businesses noted that it took their lender more than 14 days to process their application. However, slightly less than half (43.9%) of the small businesses in the sample who applied for a PPP loan had their loan application processed in less than a week.
- More than half of the small businesses (53.66%) who applied for a loan and were successful in processing their loan application through a lender received an update on their loan application status (i.e., approval or denial from the SBA) in fewer than

seven days. Similarly, 68.57% of the small businesses whose loan applications were approved by the SBA received their loan money in less than a week of being approved. Only one-quarter of them had to wait for one week or more to receive their loan money.

Use of PPP Loan Funds

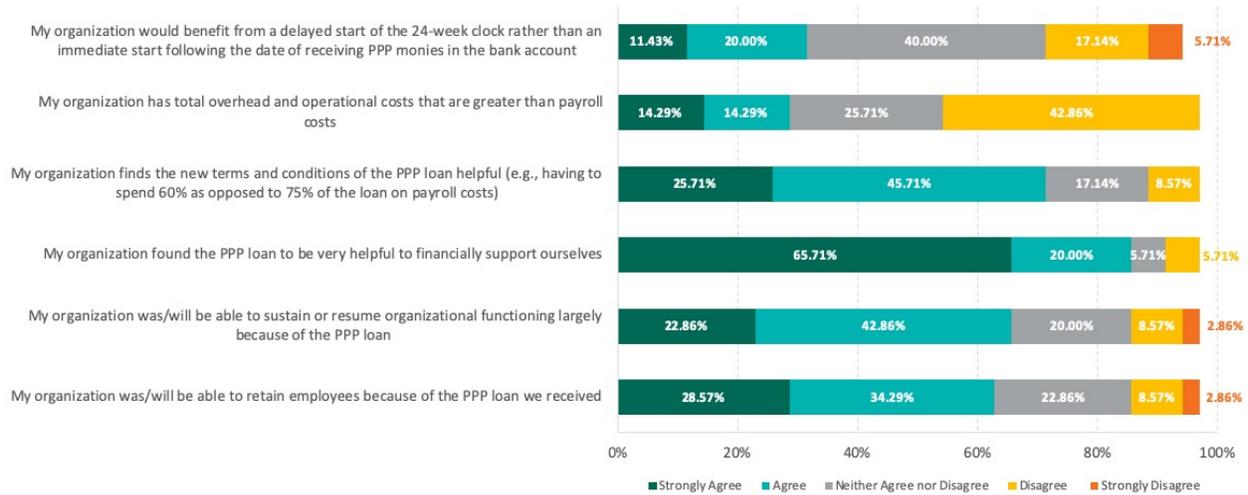
Figure 19. Ways in Which Small Businesses Spent the PPP Loans They Received from the SBA.



As Figure 19 notes, a majority of small businesses used the loan funds they received to pay their employees. The next most popular use of loans was to make rent and other lease payments. The data illustrates that most of the loan recipients used their PPP loan in a manner consistent with the stipulations put forth by the SBA (i.e., 60% of the loan amount must be spent on payroll needs).

Extent to which the PPP Loan was Perceived as Useful

Figure 20. Evaluation of Utility of the PPP Loan by Small Business Owners



As Figure 20 illustrates, the majority of small businesses ($\approx 66\%$) who responded to the survey and received the PPP loan perceived the loan to be a very helpful financial resource that they used to either resume or sustain their organizational functioning. Additionally, about 63% of those who received the PPP loan either agreed or strongly agreed with the statement that their organization was able to retain employees because of the PPP loan funds they received. Similarly, approximately 73% of the respondents found the amendments the SBA made to the PPP regulations, such as reducing the proportion of loan money to be spent solely on payroll costs, beneficial to their business.

There was much discussion about small businesses benefitting from a delayed start on the 24-week timeframe for spending the loan amount, because even though they had received the money from their lender, they were unable to resume business due to local shutdowns.^{9,10} The data notes that about 31% of the respondents either agreed or strongly agreed that a delayed start of the clock would benefit their business. Additionally, 40% took a neutral stance on this matter, and very few contested that this arrangement would be beneficial.

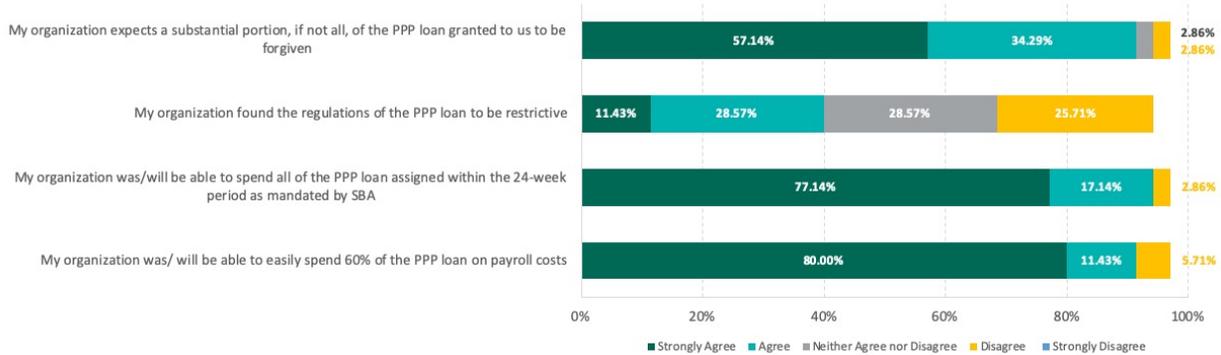
⁹ Kate Rogers, "More Than Half of Small Businesses Are Looking to Have PPP Funds Forgiven, Survey Says," *CNBC*, May 21, 2020, <https://www.cnbc.com/2020/05/21/more-than-half-of-small-businesses-are-looking-for-ppp-forgiveness.html>.

¹⁰ Amanda Kludt, "Why Restaurant Owners Are Afraid to Use The Stimulus Money," *Eater's Digest*, May 4, 2020, <https://www.eater.com/2020/5/4/21246539/eaters-digest-naomi-pomeroy-david-tobias-ppp-loan>.

Ease of Compliance with PPP Regulations

The data suggests that the majority of survey respondents who received a PPP loan thought that their organizations would be able to comply with the PPP regulations, such as spending the majority of their funds on payroll costs and within a 24-week period. This perhaps also explains why approximately 91% of these businesses expect a substantial portion of their loans to be forgiven. Although a quarter of the survey participants disagreed with the statement that the PPP loan regulations are restrictive, 40% of the participants either agreed or strongly agreed with the statement.

Figure 21. Compliance with PPP regulations



Applying for a PPP Loan

Researchers requested that survey participants comment on the extent to which they perceived the preparation involved in applying for the PPP loan as arduous. The data notes that a majority ($\approx 57\%$) of the survey participants did not find gathering the necessary documents for submitting a PPP loan application difficult at all or slightly difficult. A similar proportion ($\approx 56\%$) of small businesses found a lender to process their application with little to no difficulty. However, 41% of the respondents found it either moderately difficult, very difficult, or extremely difficult to find a lender who would process their loan application.

In relation to the instructions associated with the loan application process, approximately 41% of the respondents understood the terms and conditions of a PPP loan, and around 57% comprehended the instructions for completing a borrower application with slight to no difficulty at all. These figures still show that a large number of small business owners ($\approx 55\%$) found it moderately to extremely difficult to understand all the terms and conditions of the PPP loan. The data further demonstrates that the comprehension rate of instructions related to loan forgiveness application was low (29%). Nonetheless, it must be noted that the survey was administered at a time when the SBA was still in the initial phase of providing clarification on the process of loan forgiveness. As the interim rules associated with the PPP loan application have changed intermittently, it is plausible that the instructions regarding forgiveness have improved in clarity.

Figure 22. Evaluation of the PPP loan application process

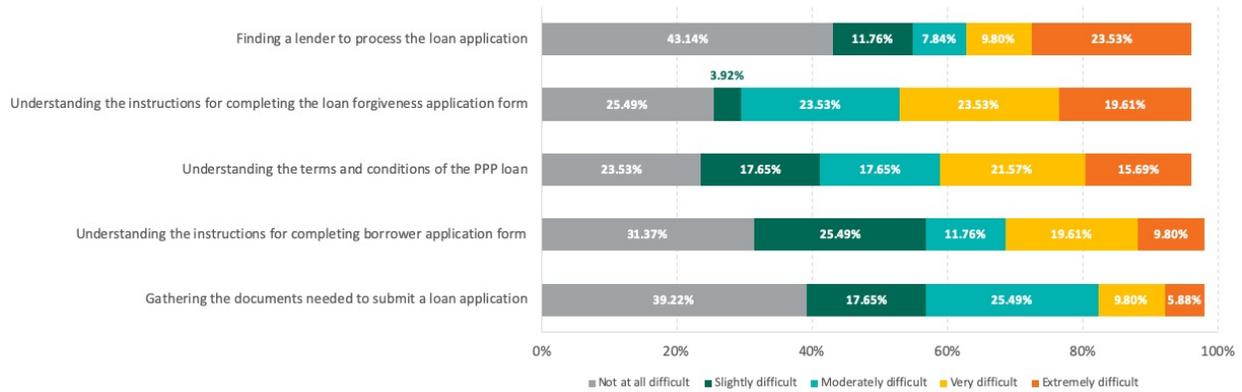


Figure 23. Internal and External Resources used by Small Businesses to Complete and Submit a PPP Loan Application

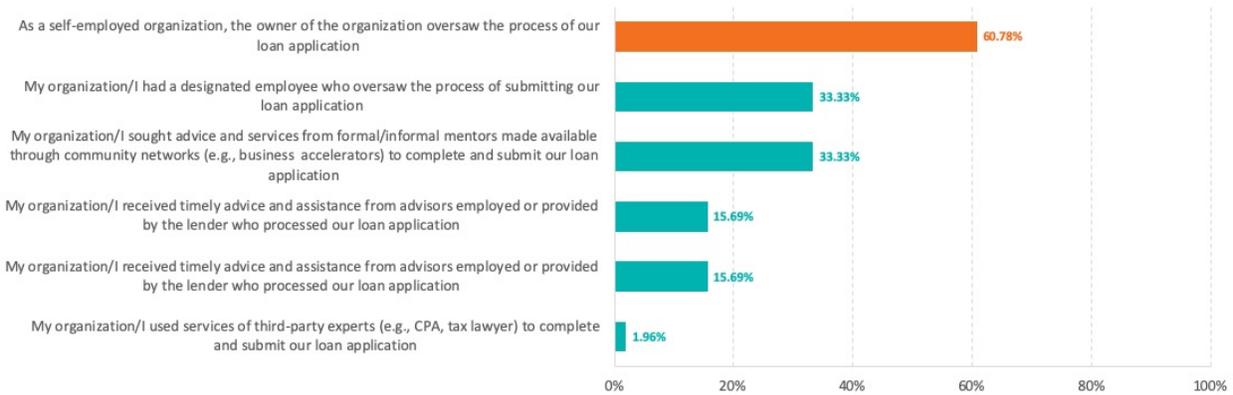


Figure 23 notes that, at least within the sample, business owners primarily oversaw the process of seeking and applying for a PPP loan rather than having a third-party help with this process. However, one-third of the sample had an employee from their company oversee this process. One-third of the sample also sought advice from business accelerators and community networks like SCORE in relation to the PPP loan application process.

Concerns About PPP Loans

The survey respondents were provided an open-ended question to describe their concerns about the PPP loan. This question was posed to those who did and did not apply for the loan. This section summarizes some of the reported concerns.

- Frustration regarding constant change in rules:**
 One of the small business owners noted, *“The process was extremely difficult to understand, information was different as rules changed.”* Another small business owner echoed this sentiment: *“We had spent the lion’s share of the funds before the law passed to*

extend the period of time we had to spend the funds from eight to 24 weeks and from 75% to 60% on payroll stipulation. Had these conditions been present from the beginning, we could have staffed the organization better.”

- **Lenders being slow with applications:** Small businesses were not satisfied with their lenders’ application processing time.

A nonprofit organization that qualified for the loan noted, *“Our bank was incredibly slow to release their application, and the funds had already been distributed by the time they got their act together.”* Another small business owner highlighted the unpreparedness of lenders, which contributed to the long processing times: *“The lender was woefully unprepared to handle the influx of applications, which made our carefully prepared application unable to be processed in time.”*

- **Not suited for nascent businesses:** Some business owners did not think the loan was designed for young businesses.

One businesses owner said, *“PPP and EIDL do not really address nascent businesses still running negative (0-2 years). In fact, when your overhead is 75% lease payment, it does not help the low employee/operating expense business model.”* Another businesses owner commented on the reluctance of the lenders to submit applications on behalf of young businesses: *“Due to the newness of the business, I was told by several banks (Frost Bank, BBVA, etc.) that I needed to be in business longer (2-3 years) before they would consider submitting my application. They all insisted that the application would be rejected and told me they would not submit it. Period.”*

- **PPP loan perceived as not sufficient:** A considerable number of small businesses expressed that the funds they received were not sufficient. They needed more money to stay afloat.

A business owner within the professional and services industry observed, *“A second round may be needed. Business is still down 50% going into the fall.”* Another small business owner in the retail industry noted, *“The amount received did not last long at all. We need approximately four times the amount given to see us through COVID-19.”*

Conclusion

Overall, the survey results suggest that the COVID-19 pandemic has adversely impacted small businesses across the Houston, Texas metropolitan area. An overwhelming number of these businesses applied for financial assistance. Recipients of a PPP loan did perceive the financial aid as useful in supporting and reviving their business functioning. However, small business owners identified application processing time, the constant change in rules, and the unsuitability of the loan for young businesses that do not have substantial payroll expenses as some of the shortcomings of the PPP.