

# THE SMALL BUSINESS ADVOCATE

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## Conference Explores How To Strengthen High Growth Entrepreneurial Activities

The conference, Entrepreneurship and Public Policy: New Growth Strategies for the 21st Century Economy, took place in Cambridge April 10–11, 2001. This landmark event, sponsored by Harvard University's Kennedy School of Government and the National Commission on Entrepreneurship, brought together some 150 leaders from government, academia, and business who explored issues of how government policy can stimulate and sustain entrepreneurship. Advocacy's economist, Dr. Ying Lowrey, attended the event and provided this summation.

While the United States is widely considered as a model incubator of entrepreneurial activity, challenges remain on the horizon. Harvard Prof. Michael Porter highlighted five looming problems:

- The growing skills inequality

(only 26 percent of the U.S. workforce holds a college degree),

- Lagging investment in research and development,
- A shrinking base of science and engineering graduates,
- The graying of America's workforce, and
- The need to improve local and regional economic development efforts.

Throughout the conference, entrepreneurs urged policymakers to eliminate red tape, streamline regulation, and create up-to-date rules governing e-commerce.

**Government's Role.** Government representatives offered remarkable stories of creating conditions conducive to entrepreneurship. Under Michigan Gov. John Engler's leadership, the state's unemployment rate has remained below the

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Advocate of the Year winners join Susan M. Walthall, Acting Chief Counsel for Advocacy (top row, center), for a photo after the Small Business Week Advocacy luncheon, attended by over 40 members of Congress. More photos on pages 4-5.



Harvard Professor Michael Porter, Michigan Gov. John Engler, Sen. Thomas Carper (D-Del.), and Rep. Edward Markey (D-Mass.) address the forum, "Entrepreneurship and Public Policy: What's Government Got to Do With It?"

**Conference**, from page 1 national average for 53 consecutive months. His policies targeted both the demand and supply side of employment: he introduced in-school and job-training programs to enhance the state's human capital, as well as a series of tax initiatives to reduce burdens on job providers.

Austin Mayor Kirk Watson set out to create a "braggable" habitat—one that would attract and retain talented people. Capitalizing on Austin's location, its music scene, and airport, he has helped shape policies that embrace diversity (including a large gay population), emphasize education, and encourage lifetime learning. Watson recently won his re-election bid with the largest majority of any Austin mayor.

Ray Moncrief, COO and executive vice president of the Kentucky Highlands Investment Corporation, pointed out that the SBA's SBIC program and related government programs have played a key role in bringing risk and equity capital into the rural areas of Kentucky. These programs have helped train people to use risk capital in order to start and run successful companies, helping create thousands of jobs in the region.

**Academia's Contribution.** Institutions of higher education have a key role to play in providing education, technology transfer, and intellectual stimulation. From the formation of business concepts, to start-up, to scale-up, academia has the potential to offer entrepreneurs new inspiration, knowledge, and skills. The success of regional innovation clusters such as Boston and Austin, anchored by such institutions as Harvard, MIT, and the University of Texas at Austin, are models of this entrepreneurial/educational symbiosis.

**Growth Strategies for the 21st Century.** In the face of current challenges, the conference offered plenty of growth strategies for the new century.

- **Human Capital.** The pivotal factor in building and strengthening entrepreneurship is human capital. As Professor Richard Florida pointed out, "When you get the best people, you win!" Why has America enjoyed such sustained and long-term economic growth? It attracts the best talent in the world.

- **Entrepreneurial Education.** Universities must offer more inspirational courses and more hands-on opportunities for talented students who represent the next generation

## The Small Business Advocate

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of business entrepreneurs.

- **Attracting Financing.** Policy-makers must create a local demand for venture capital by creating an environment attractive to investors, rather than focusing solely on enlarging the venture capital pool. Special attention should also be paid to businesses run by women and minorities, as well as to rural or underdeveloped regions. Programs such as the SBA's SBIC should be continued to bring opportunities to those who have been left behind.

- **Taking Venture Capital Global.** Venture capital investment in global

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## Message from the Acting Chief Counsel

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### Advocacy's Regulatory Review Remains Vigilant

by Susan M. Walthall, Acting Chief Counsel, Office of Advocacy

I grew up in a small family-owned business and have many fond memories of helping my father shape duct work for the air conditioning systems that he installed. I also had a chance to see the impact that excessive or unneeded regulations had on his business. That experience is one of the reasons that I really feel honored to have been named the acting chief counsel for the Office of Advocacy.

The work of the Office of Advocacy goes right to the heart of the kind of problems that my father encountered years ago—and that remain with us yet today. Congress brought Advocacy into existence 25 years ago out of recognition that far too many agencies simply had no idea what impact their regulations had for small businesses.

The core mission of Advocacy is to be the voice for small business when the government proposes rules and regulations. That voice has gotten stronger over the years, especially when Congress passed the Regulatory Flexibility Act in 1980 and the Small Business Regulatory Flexibility Act in 1996. Under these laws, agencies must consider the impact of their proposals on small entities, and Advocacy

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**In an ideal world we would work ourselves out of a job because the agencies would do the right thing in the first place.**

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is given an important role in seeing that these laws are carried out.

There is considerable variation in compliance. Some agencies have gotten to be rather good in carrying out the letter and the spirit of the law. Others are not nearly as sensitive to small business concerns as they should be.

Likewise, there is a wide range of issues and agencies involved. Consider a brief sampling of some of the dozens of items that have come across my desk in the short period I have been acting chief counsel:

- Contract bundling;
- Patent protection in foreign markets for small inventors;
- A Labor Department definition of domestic companion that would severely harm small home health care agencies;
- Bureau of Land Management reclamation rules;

- Environmental Protection Agency proposals, including air toxin rules that affect small plastic component manufacturers; lead toxin reporting rules; snowmobile usage rules; and rules affecting small manufacturers of nonroad engines.

In all of these cases there is a well-defined segment of the small business community that would face significant problems if the rules were not changed. We try to work with the proposing agency to make sure that they are aware of their obligations to small entities and that they seek the least burdensome way of reaching their objectives.

In an ideal world we would work ourselves out of a job because the agencies would become so sensitive to small businesses' needs and concerns that they would do the right thing in the first place. I can tell you that we are a long way from that nirvana. At the same time, however, I feel that there is a lot of room for optimism. More and more agencies are working closely with us and are becoming better in considering the impacts their proposals have on small businesses.

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#### Conference, from page 2

markets should be encouraged. Not only do U.S. investors have the opportunity to earn higher returns to capital in developing countries, such investment stimulates entrepreneurship in the host countries.

- *Government's Role.* Government has a very important role to play in such areas as providing physical and legal infrastructure, improving education, attracting talent, and building a strong economic community.

- *Technology Transfer.* Entrepreneurial success hinges on new information and cutting edge ideas. It is also influenced by an array of public policies. Continued

dialogue among entrepreneurs, academics, and policymakers is key to molding the future environment that will stimulate and sustain entrepreneurship.

#### For More Information

- The National Commission on Entrepreneurship report can be found at [www.ncoe.org/newsletter/update/04\\_17\\_01.html](http://www.ncoe.org/newsletter/update/04_17_01.html).
- Harvard University's Kennedy School has materials linked to [www.ksg.harvard.edu/cbg/entrepreneurship\\_presentations.htm](http://www.ksg.harvard.edu/cbg/entrepreneurship_presentations.htm).
- Dr. Ying Lowrey, can be reached at (202) 205-6947, by e-mail at [ying.lowrey@sba.gov](mailto:ying.lowrey@sba.gov) or by mail to the Office of Advocacy, U.S. Small Business Administration, 409 Third Street, S.W., Washington, DC 20416.

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## Highlights of the 2001 Small Business Week Advocacy Luncheon

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Sen. Christopher Bond (R-Mo.) shares his views on U.S. small businesses.



Sen. John Kerry (D-Mass.) stresses the importance of small business to the economy.



Pennsylvania Small Businessperson of the Year Frank H. Sarris displays his certificate with Rep. Frank Mascara (D-Pa.) and Mrs. Sarris.



Rep. John Thune (R-S.D.) converses with cowinner of the South Dakota Businessperson of the Year award, Eugene P. Burdick, and his wife.



Rep. Don Manzullo (R-Ill.) provides his unique perspective as Chairman of the House Small Business Committee.



Rep. Todd Akin (R-Mo.), Missouri Businessperson of the Year Himanshu Bhatia, and her husband enjoy the festivities.



Sen. Craig Thomas (R-Wyo.) enjoys lunch with Wyoming Regional Prime Contractor of the Year Bob Strasheim.



Rep. Howard Coble (R-N.C.) shares his thoughts with North Carolina Businessperson of the Year John L. Lomax.



R. William Hazelett, Small Business Exporter of the Year, proudly takes center stage to accept his award.



Sen. Daniel Inouye (D-Hawaii) and Hawaiian Businessperson of the Year Jeffrey P. Bloom enjoy the spotlight together.



Sen. Paul Sarbanes (D-Md.) congratulates Accountant Advocate of the Year Henry Aldana.



Alaskan Small Business Person of the Year David J. Cottrell (left) joins his wife and Sen. Ted Stevens (R-Alaska) for a photo.

### Minority-Owned Small Businesses Show Strong Growth

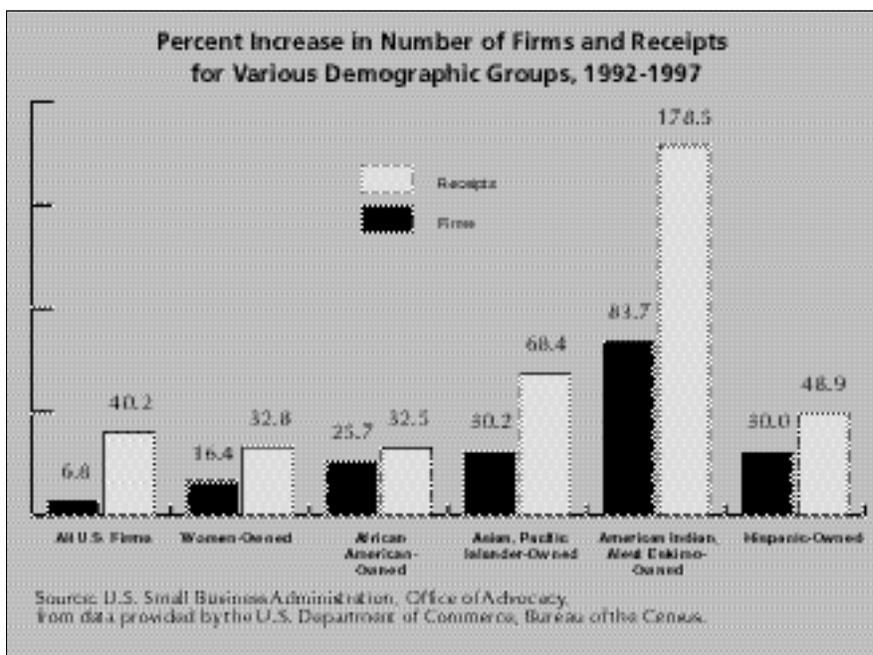
Over the course of the spring, the Census Bureau has released the complete 1997 Survey of Minority-Owned Business Enterprises (SMOBE). The reports covering African American- and Hispanic-owned firms were released in March. Those covering Asians and Pacific Islanders and American Indians and Alaska Natives were released in May. "These data show that the number of firms owned by each minority group, as well as by women, grew much more rapidly than the overall total," said Acting Chief Counsel for Advocacy Susan M. Walthall. "The Office of Advocacy expects to use the data in a variety of reports on small business by state, industry, and demographic group."

The Census data show that the number of African American-owned firms increased by 25.7 percent from 1992 to 1997 and the number of Hispanic-owned firms increased by 30.0 percent, compared with an increase of 6.8 percent for all firms. There were 1.2 million Hispanic-owned firms and 820,000 African American-owned

firms in 1997. They represented 6 percent and 4 percent, respectively, of the 20.8 million U.S. businesses (defined as nonfarm business tax returns with more than \$1,000 in receipts, excluding C corporations). Nearly all of the firms covered in the Census Bureau's SMOBE release were small businesses.

The data show sharp increases from 1992 to 1997 in businesses, most of them small, owned by Asians and Pacific Islanders and by American Indians and Alaska Natives. According to the data, there were 913,000 Asian- and Pacific Islander-owned businesses in 1997, and 197,300

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### Advocacy Joins Effort To Better Define Women-Owned Business

In April, the Census Bureau released the long-awaited 1997 economic census data on women-owned firms, the 1997 Survey of Women-Owned Business Enterprises (SWOBE). The data show that the number of women-owned firms totaled 5.4 million in 1997, with 7.1 million employees and \$819 billion in receipts. Women-owned firms made up 26 percent of the nation's 20.8 million nonfarm businesses and 4.4 percent of the \$18.6 trillion in receipts of all businesses in 1997.

The SWOBE data differ in important respects from those covering 1992, the last year women-owned businesses were surveyed. One key

difference is that the 1997 data cover nonfarm businesses that were 51 percent or more owned by women, while the 1992 survey covered firms in which women owned 50 percent or more of the business. In 1997, women and men jointly owned 3.6 million businesses, with \$944 billion in receipts. None of these are included in the 1997 count of women-owned businesses, but 2 million of them would have been included under the 1992 definition and methodology.

To review definitional questions concerning the universe of women-owned businesses, the Office of Advocacy participated in the

National Women's Business Council's task force to examine women-owned business coverage. An initial review of 1992-1997 growth based on comparable definitions shows that the number of women-owned firms increased by 16 percent, compared with an increase of less than 2 percent in firms owned by men. The number of women-owned firms with employees grew more than three times as fast (37 percent) as the number without employees (12 percent). In contrast, the number of firms with employees owned by men actually declined by 4 percent from 1992 to 1997.

# Small Businesses and the Downturn in the Economy

by Brian Headd, Acting Director, Office of Economic Research

What downturn? Well, it is going to show up sooner or later. (Because of the delay in receiving final statistics, we may find out later that we are in a downturn now.) The question already being asked is, How will small businesses fare in the next downturn?

**The Sun and Moon Align.** By almost any standard, the economy did well during the 1990s. A rare coincidence of conditions occurred, causing simultaneously declining interest rates, inflation, and unemployment rates.

The 1990s gave us a stagnant global economy, baby-boomers entering their prime working years, increased productivity from computers, a stable Federal Reserve policy against inflation, the “peace dividend” brought about by the end of the cold war, a decline in U.S. government borrowing, and an infusion of consumer spending as homeowners refinanced. These factors came together to produce low inflation and low unemployment, a combination that had been considered virtually impossible a few decades ago.

Many of these factors were one-time occurrences whose effects have since leveled off. The major stock market indexes bear the scars of this, and they now stand at the levels they were at two years ago. The economy is now at a crossroads: Will the boom go bust, or will the inertia continue?

**Recessions Can Be Good?** For individual small businesses, downturns are obviously perilous times, as financing becomes difficult to obtain, customers are slower to pay their bills, and market demand decreases. But recessions do have value in the economy.

Short recessions can free up financing and labor for new ventures. For instance, tight labor markets made finding labor the biggest problem for small businesses a few years

back. Lay-offs by large firms give small firms a larger pool of potential workers and can lead to self-employment. Most of these new owners resume working for firms when the economy picks up, but this process bodes well for entrepreneurship, as it allows owners to learn how to run a business. Many successful ventures are the 2nd, 3rd, and 4th tries by entrepreneurs.

However, prolonged recessions can be devastating, as they stifle the emergence of new ventures and force mergers to take up slack in industries. Endeavors of an entrepreneurial or innovative nature have little going for them in this scenario, as there is nowhere to grow and few new market opportunities to fill.

**One-Size Fits Nobody.** Market conditions affect small and large businesses differently. In a bust, small businesses are more susceptible to slowing demand and tighter financing conditions. Small businesses have less room to shrink and large businesses have more financing options (sale of stock, bank loans, bonds), so tight credit can hit small businesses harder.

In the early 1980s, the Office of Advocacy studied how the different firm-size sectors fared in the recessions of that decade. We found that industries requiring more capital, such as manufacturing, were most sensitive during business cycle

downswings, while services were least sensitive. In the 2000s, differences in the capital intensity of services and manufacturing may be less pronounced. (Mini-mills and modular manufacturing prevail in heavy industry, and service firms are compelled to invest in computer software and equipment to remain competitive.) Advocacy research also found that small firms felt that high interest rates were the leading cause of their problems, followed by reduced sales.

**Let's Put Off Learning For Another Day.** Very few lessons were gleaned from the most recent recession, in the early 1990s, since it was so short-lived and data by firm size were in short supply. For the sake of the current crop of business owners, however, Advocacy is optimistic that it will be some time before we have another opportunity to learn how small businesses fare in a recession.

The “r-word,” reality, is already upon us. Hopefully, small businesses will continue to receive the financing they need at reasonable rates to create employment opportunities and improve productivity so the economy can continue to drive forward.

## For More Information

- *Labor Shortages, Needs and Related Issues in Small and Large Businesses* (Office of Advocacy, 1999). [www.sba.gov/advo/research/](http://www.sba.gov/advo/research/) This report documents small businesses' difficulties competing for labor during a sustained economic expansion.
  - *An Analysis of the Effect of Recessions on Small Business Output* (Office of Advocacy, 1982).
  - *The Capital Crunch: Small High-Technology Companies and National Objectives During a Period of Severe Debt and Equity Shortages* (Office of Advocacy, 1983).
- These reports address issues arising from the recession of the 1980s.

## Minority Owned, from page 6

firms owned by American Indians and Alaska Natives.

The data for the first time include C corporations, making the totals more comprehensive than those collected in the last economic census, in 1992. The Census Bureau estimates that, excluding C corporations, the number of Asian- and Pacific Islander-owned businesses rose 30 percent, and their total receipts climbed by 68 percent. The number of American Indian- and Alaska Native-owned businesses rose 84 percent, and their receipts

grew by 179 percent. In comparison, the total number of businesses other than C corporations was up 7 percent, and total receipts of these firms were up 40 percent.

Small businesses predominated among both sets of owners. Two-thirds of Asian- and Pacific-Islander-owned firms and five out of six American Indian- and Alaska Native-owned firms had no paid employees. Among Asian- and Pacific Islander-owned firms, 28 percent had receipts of less than \$10,000; among American Indian- and Alaska Native-owned firms, 41 percent.

## New Press Release Listserv

Advocacy's press releases are now available instantaneously via electronic Listserv. The new Listserv complements the one created for distribution of *The Small Business Advocate* earlier this year. Subscriptions to either listserv can be initiated and updated from a link on Advocacy's main page [www.sba.gov/advo](http://www.sba.gov/advo). All subscriber information will be kept confidential and not used for any purpose except for newsletter and/or press release distribution.

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## For More Information

Recent Advocacy-produced or -funded research in this area includes: *The Role of Race and Gender in Business Survival*; *Business Success: Factors Leading to Surviving and Closing Successfully* ([www.ces.census.gov/ces.php/home](http://www.ces.census.gov/ces.php/home)); and *Analyses of Business Dissolution by Demographic Category of Business Ownership* ([www.sba.gov/advo/research/#business](http://www.sba.gov/advo/research/#business))

Census Bureau information about the SMOBE and SWOBE are located at [www.census.gov/csd/mwb/](http://www.census.gov/csd/mwb/). Technical questions may be addressed to Dr. Ying Lowrey at (202) 205-6947, or by e-mail, [ying.lowrey@sba.gov](mailto:ying.lowrey@sba.gov).

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