

**SMALL BUSINESS DEVELOPMENT CENTERS: NEW
OFFERINGS FOR A NEW ECONOMY**

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

WASHINGTON, DC, JULY 13, 2005

Serial No. 109-25

Printed for the use of the Committee on Small Business



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

23-180 PDF

WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON SMALL BUSINESS

DONALD A. MANZULLO, Illinois, *Chairman*

ROSCOE BARTLETT, Maryland, *Vice
Chairman*

SUE KELLY, New York

STEVE CHABOT, Ohio

SAM GRAVES, Missouri

TODD AKIN, Missouri

BILL SHUSTER, Pennsylvania

MARILYN MUSGRAVE, Colorado

JEB BRADLEY, New Hampshire

STEVE KING, Iowa

THADDEUS McCOTTER, Michigan

RIC KELLER, Florida

TED POE, Texas

MICHAEL SODREL, Indiana

JEFF FORTENBERRY, Nebraska

MICHAEL FITZPATRICK, Pennsylvania

LYNN WESTMORELAND, Georgia

LOUIE GOHMERT, Texas

NYDIA VELÁZQUEZ, New York

JUANITA MILLENDER-McDONALD,
California

TOM UDALL, New Mexico

DANIEL LIPINSKI, Illinois

ENI FALEOMAVEAGA, American Samoa

DONNA CHRISTENSEN, Virgin Islands

DANNY DAVIS, Illinois

ED CASE, Hawaii

MADELEINE BORDALLO, Guam

RAÚL GRIJALVA, Arizona

MICHAEL MICHAUD, Maine

LINDA SANCHEZ, California

JOHN BARROW, Georgia

MELISSA BEAN, Illinois

GWEN MOORE, Wisconsin

J. MATTHEW SZYMANSKI, *Chief of Staff*

PHIL ESKELAND, *Deputy Chief of Staff/Policy Director*

MICHAEL DAY, *Minority Staff Director*

CONTENTS

WITNESSES

	Page
Gangi, Mr. Rich, President, American Trim Manufacturing	4
Naranjo, Ms. Norma, Owner, The Feasting Place	6
Conroy, Mr. Christian, Associate State Director, Pennsylvania Small Business Development Center, Wharton School, University of Pennsylvania	8
Kauten, Ms. Erica, State Director, Wisconsin Small Business Development Center, University of Wisconsin	10
Chrisman, Dr. James, Ph.D., Professor of Management, Department of Man- agement and Information Systems, College of Business and Industry, Mis- sissippi State University	12

APPENDIX

Opening statements:	
Manzullo, Hon. Donald A.	25
Sweeney, Hon. John E.	27
Fitzpatrick, Hon. Michael G.	30
Udall, Hon. Tom	33
Brady, Hon. Robert A.	35
Prepared statements:	
Gangi, Mr. Rich, President, American Trim Manufacturing	37
Naranjo, Ms. Norma, Owner, The Feasting Place	40
Conroy, Mr. Christian, Associate State Director, Pennsylvania Small Business Development Center, Wharton School, University of Pennsyl- vania	43
Kauten, Ms. Erica, State Director, Wisconsin Small Business Develop- ment Center, University of Wisconsin	50
Chrisman, Dr. James, Ph.D., Professor of Management, Department of Management and Information Systems, College of Business and Indus- try, Mississippi State University	56

SMALL BUSINESS DEVELOPMENT CENTERS: NEW OFFERINGS FOR A NEW ECONOMY

WEDNESDAY, JULY 13, 2005

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Committee met, pursuant to call, at 2:00 p.m. in Room 2360, Rayburn House Office Building, Hon. Donald A. Manzullo [Chairman of the Committee] presiding.

Present: Representatives Manzullo, Fortenberry, Velazquez, and Udall.

Chairman MANZULLO. Good afternoon. I would like to welcome everybody to the Committee's hearing on the Small Business Development Center, known as the SBDC program. Small Business Development Centers are located in every State associated with the American Higher Education System, and provide invaluable advice to entrepreneurs.

Today's hearing focuses on four bills designed to provide additional focus for the delivery of services by SBDCs to America's small businesses. In 1980, the Senate Small Business Committee determined that the provision of advice and services to small businesses should follow the cooperative extension model.

Congress created the SBDC program to take advantage of the knowledge and the dissemination capability of America's colleges and universities. The interim 25 years have seen more change in the American economy than occurred during the 75 years between the establishment of the Cooperative Extension Service and the establishment of the Small Business Development Program.

Small businesses today face new challenges in an increasingly global economy. In addition to market challenges, small businesses must cope with a regulatory regime far more complex than any during the country's history.

The Committee must examine whether the Small Business Development Center programs will be even more effective because of the new tools offered by the bills we are considering today.

Today's hearing will consider four bills that make modest adjustments to the SBDC program. Each bill is designed to offer targeted services and assistance by a select group of small business development centers.

Mr. Sweeney's bill would provide additional resources for regulatory compliance counseling. Mr. Udall's bill would improve access to SBDCs by the rapidly growing population of Native American small business owners.

Mr. Brady's bill would ensure that SBDCs begin educating our vocational and technical students about entrepreneurship. These bills have been routinely approved by overwhelming margins in the Committee and House during the past two Congresses.

My goal is to act again in a similar bipartisan manner in order to prod the Senate into finally passing these noncontroversial measures. Finally, Mr. Fitzpatrick's bill targets assistance to so-called gazelles, small businesses that are facing rapid growth and create most of the new jobs generated by small businesses.

This bill would use the SBDC network to help establish peer learning opportunities so that these dynamic small firms can solve business problems in a cooperative dialogue among their colleagues.

I look forward to working with the members to ensure prompt passage of the legislation, and I recognize the ranking member of our full Committee, the distinguished gentle lady from New York, for her opening statement.

[Chairman Manzullo's opening statement may be found in the appendix.]

Ms. VELAZQUEZ. Thank you, Mr. Chairman. At a time when our economy continues to struggle through an economic recovery, with 40 thousand less jobs created last month than expected, it is clear that today's environment is not conducive to our Nation's entrepreneurs.

Small businesses are the main job creators and are capable of turning these payroll numbers around if they have the right tools to do so. Clearly, aspiring entrepreneurs require management skills, organizational skills, and technical assistance, all of which are provided by the Small Business Development Centers.

The SBDCs have the proven record of spearheading entrepreneurship and economic development. In 2003, long term counseling clients by SBDCs generated over 56 thousand new jobs. Studies have shown that for every dollar spent on SBDC services the program returned nearly three dollars to the Treasury.

Despite all of the benefits that this program provides not only to small businesses, but also to our economy, the Administration has effectively cut this program by over 30 percent in the last five years, when compared to the overall government spending during that time.

If you look across the country, over half of the States are feeling the effects of these cuts. For example, the State of Illinois will receive \$156 thousand less in Fiscal Year 2006 than it did in Fiscal Year 2001 through the SBDC program. And New York will receive \$403 thousand less.

While the number of businesses only continue to grow throughout the country, States are receiving less for their SBDC programs. These cuts are clearly having an effect. For the first time in five years, the number of client hours of SBDCs has decreased.

This is not because the demand is not there. Businesses are waiting in line for these services. It is because the funds are not there. While we are here to talk about some new enhancements to the program, the truth is that these discussions cannot take place until we examine the glaring funding shortfall.

Clearly, this proposal sounds great, and who will find fault in steering business expansion, providing regulatory assistance, or helping Native American entrepreneurs. In fact, three of these bills have already passed in the House during past Congresses.

We also review a new initiative, H.R. 3207, which is targeting larger businesses. Our intent is not only to maximize the role of the SBDCs, but to ensure that any changes to the program do not take it beyond its scope, which is to help small businesses.

While we are here to discuss and evaluate these new initiatives, how are they ever going to reach their true potential if we continue to inadequately fund the underlying programs. It simply makes no sense.

If the Administration is truly committed to SBDCs, they need to stop talking about the loans and contracting opportunities, and all of the other regularly field press releases, and start facing up to the question of are you going to fund this great program. So far the answer is no.

The SBDC program enables entrepreneurs to take communities from poverty to prosperity. It is this program and the SBDC employees who are on the front lines talking to and serving our Nation's entrepreneurs every day, providing them with the necessary skills that they need to keep our economy growing.

The thanks that we are given is insufficient funding. These are the same people that fill waiting rooms every day, and know firsthand the challenges in offering their services to entrepreneurs because of the lack of funding.

Today is an opportunity to truly assess the current conditions facing SBDCs. This is only the third time that this Congress and this Committee has held a hearing under its jurisdiction, which is clearly a contributing factor to why this agency is in such a state of disarray.

Once again, this is an incomplete hearing. There is no one here from the Administration to explain why the SBDC is receiving insufficient funds. More and more it is evident that this Administration is allowed to skip this hearing because they won't be able to answer the questions, such as how will they turn around the job and client hours, and why isn't the Administration providing the resources that will enable SBDCs to perform at their fullest potential, and what are they doing to help develop small businesses.

Unfortunately, this Administration has promised a lot, and delivered little to this Nation's entrepreneurs. If we want to move forward and provide new initiatives and strengthen the hours of our SBDCs, then this Administration and this Committee must start backing up its rhetoric with some action. And the first step is by providing adequate funding. Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you. Our first witness is Mr. Richard Gangi, and Mr. Gangi hails from Durham, New York. Have any of you testified before Congress before? Is this your first time? Okay.

There is a red light there, and the light system is that green is go, and yellow is where you have one minute, and when it is red, then the gong comes. So if you could follow that as close as possible.

What we are interested in is your personal stories as to the impact of the legislation, et cetera. Gangi. Is that Italian, like Manzullo?

Mr. GANGI. Yes.

Chairman MANZULLO. Then I should know how to pronounce it then. Okay. We look forward—

Mr. GANGI. Wait a minute. Man—

Chairman MANZULLO. Manzullo. That is correct. I had Ms. Naranjo spelled out phonetically.

Ms. NARANJO. Naranjo.

Chairman MANZULLO. It did not do me any good did it?

Ms. NARANJO. No.

Chairman MANZULLO. We look forward to your testimony. Go ahead.

Mr. GANGI. Shall I start?

Chairman MANZULLO. Yes, go ahead.

STATEMENT OF RICHARD GANGI, AMERICAN TRIM MANUFACTURING

Mr. GANGI. My name is Richard Gangi, owner and president of American Trim Manufacturing. I would like to take the opportunity to thank Chairman Manzullo, and ranking member Nydia Velazquez, and the Committee on Small Business of the United States House of Representatives for me to offer my testimony here today.

I would also like to show my full support for Representative Sweeney's proposal on the H.R. 230. I am putting down my prepared statement, and I really want to talk from my heart.

Chairman MANZULLO. All of the prepared statements will be made a part of the record without objection. Go ahead.

Mr. GANGI. We are truly a small business. My dad was an immigrant from Africa, and retained citizenship, country of origin, was Italian, and he came to this country in 1929, and started a business by the name of Sedaga, and literally built it up from a nothing company to a company that is well respected in the world for nomenclature of particular fabrics.

We later bought it, myself, bought it, and changed the business name and doing business as American Trim. We are a small company. Three years ago, we were employing nine people, and we have now grown in the last three years to 58 people.

Myself, along with two sons, Rick and Dan, run the operation, and we have a real difficult task in competing with the world market today. The imports, the outsourcing, and anything that has to do with killing American small business is happening. We have got to fight every day for what we need and for what we have to get.

This bill that Representative Sweeney has prepared and is proposing I think is a needed bill. It gives us the background and it gives us the support laterally to be able to call on these people to understand what OSHA is, and what DEP, and EPA is, and things of that sort.

We can't really and we do not have the resources to be able to sit down, and analyze these hundreds and hundreds of pages of where we fall, and our rights, and our wrongs. The Greene County Development of Greene County has been very helpful tome in the last two years, and the NYSBDC has been extremely helpful.

They have guided us and shown us, and brought in people who can help us with our computer system, and they have given us wonderful ideas in business, and per se, our contact gentleman is Larry Larson, who has done a wonderful job for us.

We have had in our office Senator Seward, and he is absolutely delighted at our progress and our growth, but we need help. Every drop of help that we can get from the government, from the State government, is needed. We are not a big business with resources to be able to contact people, or hire lawyers, or prepare statements, or delve into that.

Our staffs are small, and our business is growing, and we really have to pay attention to where we are going and how we approaching it. Our competition is overseas. This is where we need the help. We need as much help from you people as we can get.

The business climate in our industry is devastated. We are losing every day. The furniture industry, I just came back from my trip yesterday from High Point, and they are petrified. They are overseas. Even the people that own the company that are over there still don't know where they are going and what they are going to do.

You speak of losing jobs in this country. We are hiring. We are proud to say that we are hiring. We are a company that has been growing and will grow. We have an initiative of designing and building our own equipment.

We actually construct and manufacture yarns that we use in our products, and we are on a pattern of growth. But every bit of help that we can get from the NYSSBDC, and any organization such as this that can help us, and give us that pat on the back, to inform us.

As a small businessman, I have not had time to delve into what programs are available for us. I have not had the luxury of being able to say that I have gone to the State. Actually, they have been brought to me by the Greene County people, and it was a wonderful find.

The people up in Albany are doing a great job. They are helping us, and they have given us grants for training our people on computers, and for a small business, we are a big-hearted business.

But in closing, I would like to thank the Committee for inviting me here today, and I do terribly support strongly Representative Sweeney's H.R. 230 bill getting passed, and it will be a great help. I appreciate your time and thank you very much for inviting me here today.

[Mr. Gangi's testimony may be found in the appendix.]

Chairman MANZULLO. I want to thank you very much. We held a hearing about a year ago on furniture and the threat from China, and maybe a year-and-a-half ago, and at that time, China had a 40 percent market of case good furniture, and now it is well over 50 percent, and I appreciate your concern on it.

Our next witness is Ms. Norma Naranjo.

Ms. NARANJO. Naranjo.

Chairman MANZULLO. Well, then my phonetic is wrong. Ms. Norma Naranjo, the owner of The Feasting Place, in Fairview, New Mexico. We were down there for a hearing about three years ago,

and we uncorked the mess at Los Alamos. It was a very interesting time, and we look forward to your testimony.

STATEMENT OF NORMA NARANJO, THE FEASTING PLACE

Ms. NARANJO. Thank you. Good afternoon, Mr. Chairman, and members of the board. I would like to thank you all for inviting me here today to give this important testimony. I am here today because this important bill is of great importance for me and for my Native people.

I feel that Native American people need to be—have this SBDC establishment because we are able to become better entrepreneurs, and we will be able to become better business people. I am a member of the San Juan Pueblo Tribe in Northern New Mexico, and prior to owning my business, The Feasting Place, I was a U.S. Navy Vietnam veteran. I was also a commissioned officer with the U.S. Public Health Corps as a social worker. I feel that I have served my country, and now I am asking you, Mr. Chairman, and members of the board, to serve Indian country by supporting this bill.

I feel that the SBDC in Espanola, New Mexico, has really given me a second career. I feel that they helped me over the hurdles of becoming a business woman, and without them, I would not be here today giving you this testimony.

I feel that I am a proud owner of The Feasting Place in San Juan Pueblo. They have given me the help that I needed, and which I had no knowledge of. I had no knowledge of how to become a business person.

And they have given me the help and support, and the confidence and encouragement to become this small pueblo person that knew nothing about becoming an owner. They helped me with the establishment of coming into my home and teaching me the marketing skills, critiquing my business, by coming in and helping me with my business brochures, and those types of things which are really critical and crucial in really starting up a small business.

I live in Northern New Mexico, which is a very rural area, and I feel that the Small Business Development Centers came in and really understood my talent. My business is very unique, and I will go into that in a minute.

But they understood my talent, and I feel that as Native Americans that we have beautiful talents to offer. We were at the museum this morning and I saw all the talent that there is, but we need the other side to make this happen as a business.

And without the Small Business Development Center, I feel that this can't happen. We need the education, and we need the services that are valued. I feel very blessed that Julianna Barbee, who is the Director of the Small Business Development Center in Espanola, New Mexico, has given me this.

My business, called The Feasting Place, is nested in San Juan Pueblo, New Mexico. It is out of my home. The reason why my business is very unique is because I offer Native American authentic cooking classes, and I offer Native American baking classes out of my Home.

It is a beehive adobe hut that we do our baking out of, and I have had many people throughout the world come into my kitchen,

and learn about baking, and about cooking. But they have not only taken away what they have baked, or what they have learned how to cook, but they have taken away a wonderful experience as to how our native people live, our traditions, our way of life.

And they have taught me and left me with those wonderful experiences, and it has been just wonderful to see and to experience how people live. Especially in this day and age how we don't support that, and I feel that the SBDC has really given me the help of being profitable in a very short time.

I have—and to some people it may be peanuts, but to me it is important that I have hired one full-time person and five part-time people at peak season. And to me that is important, that I am able to help my native people.

And the SBDC has given me great exposure as well. If you look in the SBDC webpage, you will see my name there, and that I was chosen as business person of the year. I am very proud of that.

And with that, I have gotten great exposure to the point where I have gotten many calls from magazines, and from newspapers, to hear my story. I got a call a couple of weeks ago from Gourmet Magazine. I am very proud of that and that there may be a featured story on my business.

So there is success in SBDC. You start small, but as time goes, you grow. I feel so, so proud to be here to give you this story. And they have given me a lot, and I know that my time is getting shorter, but they have also given me—and we are able to collaborate with Native American clients.

We are able to collaborate our services in terms of marketing ourselves with each other. There is a group called the "Ancient Storytelling," which is also a client of the SBDC. They are going out to the trade shows out in Europe, and next week, they are going to Japan. I am part of their marketing service, because I am part of the tour.

So I feel very blessed that we have this small office in Espanola, New Mexico, but yet we can become very global. I feel that with the services that are expanding through my business, and I am going to be doing a cook book by the year 2006, and with the help of the SBDC, they will help me market my book.

And they will continue to support me by upgrading my brochures, and giving me the support that I need. So I feel that this is a very valuable bill that needs to be supported. So I wanted to thank you for having me here today, and I know that I will continue to be successful with the help of the SBDC.

And I just want to end by saying that any time any of you are in Espanola, New Mexico, feel free to stop by The Feasting Place, and I can guarantee that you will have a wonderful Native American experience. With respects, thank you very much.

[Ms. Naranjo's testimony may be found in the appendix.]

Chairman MANZULLO. I am getting hungry listening to you. I would like to order at least two of those cookbooks, one for Ms. Velazquez and one for myself.

Ms. NARANJO. No problem.

Chairman MANZULLO. And I need an advanced order on them and that is exciting. Thank you so much for your testimony.

Ms. NARANJO. Thank you.

Chairman MANZULLO. Our next witness is Mr. Christian Conroy. He is the Associate State Director of the Pennsylvania Small Business Development Centers, The Wharton School, University of Pennsylvania, and we look forward to your testimony.

STATEMENT OF CHRISTIAN CONROY, PENNSYLVANIA SMALL BUSINESS DEVELOPMENT CENTER, WHARTON SCHOOL, UNIVERSITY OF PENNSYLVANIA

Mr. CONROY. Good afternoon. Thank you, Mr. Chairman, and ranking member Velazquez, for inviting me here to testify on H.R. 527, the Vocational and Technical Entrepreneurship Development Act. A very common third type of entrepreneur is a little bit different from the two folks that you have heard testify so far today, folks who are looking to start a business based upon a skill or trade that they have.

If you own a home or a car, you think of your auto mechanic, or your electricians, or your contractors, or anybody like that that you deal with. And that is not surprising. What is surprising though, I think, and I think maybe what is important, is that our vocational educational system is not really doing anything at this point to teach folks how to be a small business owner.

They are focused on teaching people a skill or a trade, which they are very effective at, but they are not doing anything to teach them how to be a small business owner. And if you look at the measures that are used to evaluate the success of vocational education, that won't be surprising.

Those measures don't include anything about being a business owner and about being an employer. Currently, when graduates of vocational programs decide to make the move to self-employment, which many will do, they find that starting and managing a firm requires a very different set of skills than those that they acquired from training at a vocational school.

Many who are attempting to make this move are ill-prepared and regrettably too many will fail, and there is no reason for these students to fail as entrepreneurs when we have the resources that can help them to succeed.

I firmly believe that the best resource available with respect to entrepreneurs nationwide who are interested in starting a new business is the Small Business Development Center program. I am not going to get into the details on the impact of the program since Dr. Chrisman is going to be talking about that in a few moments.

But I am sure after you have heard his testimony that you will agree that the record of impact of this program is impressive. But the thing is, our resources are such that we cannot meet the demand for assistance in starting businesses, because the SBDCs are operating at capacity.

Therefore, if the SBDCs are to serve more potential entrepreneurs, they must transfer our knowledge of the entrepreneurial process to those educational systems having the capacity to educate a much larger segment of the population than we can currently serve.

The vocational education system is chosen as a starting point, because it is a system that is market based, and it is one through which a significant number of potential entrepreneurs will pass.

Yet, with some isolated examples, very few of these schools currently provide any cohesive curriculums on small business management.

The vocational educational system was also chosen based on the SBDC's past relationship with these institutions, and I will give you two examples. The Kutztown University Small Business Development Center has a very strong partnership with the Thaddeus Stevens College of Technology, which is a post-secondary school in Lancaster, Pennsylvania.

Every two months the SBDC offers its four week business planning for success course at the school, and approximately a hundred students throughout the year will attend that course.

As the SBDC also operates an outreach office directly in the school, SBDC staff are frequently asked to speak during Stevens' classes. The location of the outreach office at the school also enables students who are considering starting their own business the opportunity to work one-on-one with an SBDC consultant to further explore their business dreams.

In Northeast Pennsylvania, the University of Scranton SBDC is frequently called upon by teachers from schools such as Johnson Technical College, Northampton Community College, and the McCann School of Business and Technology, to speak to students on the option of self-employment.

During their time in the classroom, SBDC staff not only discuss what is involved in starting a business, but they also tailor their programs to provide specific information, trends, and demographics particular to the industry that the students are studying.

While these two examples demonstrate how a partnership between the SBDC and vocational schools can be valuable, it is important to note that these joint programs are not occurring as part of a systematic formal program.

Because of resource constraints, the SBDCs are not able to provide in-depth, ongoing educational or consulting services as part of the curriculum taught at these and other vocational schools.

Nor do the SBDCs have the resources to provide training to vocational school teachers on how to incorporate small business management topics into their course curriculum. This bill will provide funding for the SBDCs to enable us to establish programs with more vocational schools.

The primary benefit of this bill is that students graduating from both vocational and technical schools will not only be skilled in a particular trade, but will be armed with the knowledge and tools relevant to building a successful business in their field.

As a result, you can expect to see more trades-people start and grow successful new businesses across the country. We feel that this bill represents an excellent vehicle to combine the resources of two well established, proven programs, to begin to make entrepreneurial education available to a larger pool of prospective business owners, if provided the resources to do so by Congress. Our economy and our communities depend upon it. I urge the Committee's approval of this bill. Thank you.

[Mr. Conroy's testimony may be found in the appendix.]

Chairman MANZULLO. Our next witness is Erica Kauten, formerly the State Director of the Wisconsin Small Business Develop-

ment Center, the University of Wisconsin Extension. I am sorry, still there.

Ms. KAUTEN. Yes, still there.

Chairman MANZULLO. Since 1995, managing business and industry outreach at the University of Wisconsin systems. The top part of my Congressional District touches your State.

Ms. KAUTEN. That is right.

Chairman MANZULLO. So, we look forward to your testimony.

STATEMENT OF ERICA KAUTEN, WISCONSIN SMALL BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF WISCONSIN

Ms. KAUTEN. Thank you, Chairman Manzullo, and ranking member Velazquez. I am very pleased to be here today to be able to present both Wisconsin and a new program for second stage entrepreneurs.

I am the State Director of the Wisconsin SBDC, and I find it particularly significant that I am here today at the same time actually when in Madison, Wisconsin, we are holding a memorial service for Gaylord Nelson, the actual founder and originator from the House of the Small Business Development Center.

So it is again my pleasure. The SBDC in the State of Wisconsin operates through all of the University of Wisconsin four year campuses, and we also have three specialty centers, one of which specializes in market feasibility and product innovation; and the other one in prototype design, and the other one in taking tech transfer opportunities from the private sector, and offering them to small businesses.

We are in our State the largest provider of small business services around. We, two years ago, were charged to take a leadership role and to provide a strategic planning session for economic development, and in particular for entrepreneurship in our State.

And we did that by assembling 40 leaders from the business community, and also from the economic development community, and putting them on a bus for six hours going to Chicago.

We asked them to give up some of their weekend, and we conveyed a strategic planning session at the Edward Lowe Foundation in Casapolis, Michigan, and the Edward Lowe Foundation is one that centers all of its resources on entrepreneurs, and in particular second-stage entrepreneurs is a term that they have coined to identify entrepreneurs, and distinguish those that are starting on the new venture side, and those that are more experienced, and are ready to grow, and have both the intent and the capacity to grow.

We ended up at that facility, and we came away from there after a day-and-a-half with two charges, one of which was that we were going to redouble our efforts to work with more businesses in the State of Wisconsin.

And we have really been using collaboration with other partners that I think in a way has exploded what we have been able to do. Additionally, we thought that it was time for us to identify a market segment that we felt that we heretofore not paid as much attention to as we might have.

And one that has statistically and by research shown to have the greatest job growth and the greatest ability to grow outside of the

communities, and those are that category that we are calling second stage.

I want to be careful and identify that group not as large businesses. They are in no way large. They are much represented by many of the same small businesses that we serve on a regular basis.

And in my testimony, I identified 4 or 5 of those businesses, and I would just like to give you a profile. One of them produces sweet and dried cranberries in the Central Wisconsin area, but does it nationally and internationally.

Another one in our Madison area is a biotech firm, and another minority-owned business in Milwaukee that provides hydraulic analysis. Another cyber-defense agency in Wisconsin Rapids, which is a community of about 10 thousand, is a company that actually improves security to both the government and to commercial services.

That CEO found me just after I came off of the plane today just to make sure that I had his opinion as part of my thinking, and to try to reinforce how significant this particular learning experience has been to him.

Now, the SBDC, as the Committee well knows, has been in the educational business for 25 years and primarily we do counseling one-on-one, sitting down with clients, and working with those much in the line of what our former testimony identified.

We also do training. With the help of the Edward Lowe Foundation, and trying to better identify what this new segment was looking to us to help them with, in terms of a new educational experience, we found that both a classroom and a consulting kind of relationship was not the optimal way to learn for this particular segment.

They identified that they really wanted to learn from each other, and there are many of those kinds of peer learning roundtable activities going on both in the private sector and probably many of which are in your States.

What I think significantly differentiates this program from those is two points. One, for example, is that we have been able to be successful. We have 11 groups going on the State now, and we have less than one year of operation.

We have been able to identify and put together groups in communities that the private sector has attempted to find groups in, but has not even after putting in one case \$40 thousand in marketing efforts towards it.

And it has not found the density that it needed to put a group together. It is imperative that there are 10 to 12 people in non-competing industries put together, and commit to a particular time frame that is really quite ambitious.

In our case, we meet monthly for about five hours per month in this facilitate roundtable group, and they commit to it for a 10 month period. The private sector was not as ambitious into that area and was unable to find success. Whereas, the SBDC, because of their long tradition of working with those businesses, was able to identify those firms that fit the profile and were looking for a way to learn from one another.

The kind of testimonials, in terms of PeerSpectives, is that in my testimony I welcome questions from the Committee, and would welcome any opportunity to have those Wisconsin folks that are in these groups be able to talk to you about just how successful that has been as an educational process.

And I look forward to the Committee considering this as one pilot to try to broaden the scope of education activities for the SBDC.

[Ms. Kauten's testimony may be found in the appendix.]

Chairman MANZULLO. Thank you. I appreciate your testimony. Our last witness is James Chrisman, with the Department of Management and Information Systems for the College of Business and Industry at Mississippi State University. I look forward to your testimony.

**STATEMENT OF JAMES J. CHRISMAN, COLLEGE OF BUSINESS
AND INDUSTRY, MISSISSIPPI STATE UNIVERSITY**

Mr. CHRISMAN. Thank you. Chairman Manzullo, Ranking Member Velazquez, and Members of the Committee on Small Business. I thank you very much for inviting me here. My purpose today is to talk about the SBDC program in general, rather than to comment on specific bills before the Congress.

In my experience as a professor, I have studied the SBDC program for 23 years, and have done approximately 250 studies, including studies of the national program, and studies of individual States; studies of States which are represented by most of the members of the Committee.

I have also published 23 peer-reviewed journal articles based on my research. My overall conclusion is that the SBDC makes a positive impact on the economic development of the United States in terms of job creation and sales growth of its clients.

In addition, the tax revenues generated by the incremental improvements of these clients exceeds the costs of the program. Before I talk a little bit more about the specifics, I thought it was important to explain why I think that this program has an impact.

And I think that it is particularly important given the bills before the Committee, because those bills tend to be about programs that are educational in nature, and the impact of the program, and the cause is because of its educational nature.

As you know the SBDC provides information, research assistance, advice, and mentoring to clients. However, one of the big components of the program is that the clients themselves perform much of the work under the guidance of an experienced counselor.

This leads to knowledge generation. First, explicit knowledge, where they gain facts and theories, is very important. And second, which I call tacit knowledge, or the experiential knowledge that they gain by going through the process of counseling, is more important.

In other words, clients learn how to better manage their business, and as a consequence, they gain competitive advantages that have advantages for them in terms of their survival, growth, and success in achieving their own objectives.

Briefly, here are some of the results. Some of these have already been mentioned, but my most recent study of the national program and 2002 clients, of those 61 thousand long term clients, they gen-

erated approximately 56 thousand new jobs. That is almost one per client.

They generated about \$5.9 billion in incremental sales. That is about a hundred-thousand dollars per client. In terms of jobs, the cost of a new job is about \$3,400 a job. That is a pretty good investment.

It is also a good investment for the government, because the tax revenues, the incremental tax revenues generated by these clients exceeded the cost of the program by a ratio of approximately 2.5 to 1.

Now, I want to emphasize that this is a result of just one study. These results have been consistent over time in the national studies that I have conducted, and they have been consistent in the studies that I have conducted in individual States.

They are also consistent across different types of clients, different types of businesses, and different types of objectives that the client businesses have been trying to achieve.

Now, these studies have been designed to measure the effects of the program. What I think is also important is the other work that I have done, which has tried to gain an understanding of the causes.

Now, part of that I have already discussed. As well as to test the cause and effect relationships that are implied. In a recent study that I did on the Pennsylvania program, a long term study, I found a direct relationship between the amount of assistance received and the survival, sales growth, and employment of the clients 4 to 8 years after receiving counseling.

So these are documented results and I think pretty impressive. So, in conclusion, I think it is clear based on the work that I have done over the years that the SBDC makes an important contribution to economic development and it is a sound, cost effective investment for the government to be engaged in.

Critical is the educational component, and these bills, and again today I want to mention, have an educational component that I think make them particularly consistent with the mission and capabilities of the SBDC program. So, thank you very much.

[Mr. Chrisman's testimony may be found in the appendix.]

Chairman MANZULLO. Thank you. Let me recognize Congressman Udall of New Mexico to talk about his bill, H.R. 2981.

Mr. UDALL. Thank you very much, Chairman Manzullo, and I appreciate the panel, and I appreciate your testimony here today. You have already heard from one of my constituents here, Norma Naranjo, from the San Juan Pueblo.

Ms. Naranjo is, as I am sure you have heard, is the owner of The Feasting Place, a dining establishment featuring Native American cuisine. You may not have known that in January of 2002 that she was recognized by the New Mexico State Legislature and the Governor's Office as one of New Mexico's SBDC's successful clients during New Mexico's SBDC Day in the legislature.

She joined 17 other successful SBDC clients at a recognition ceremony held in the Capital's rotunda in Santa Fe, and she is an excellent example of an entrepreneur who has been successful through her ambition and diligence, mixed in with a little help from the New Mexico SBDC.

With additional funding to SBDCs who seek it, they can provide assistance to more entrepreneurs like Ms. Naranjo. And I thought I would take a few minutes, Mr. Chairman, to talk about my bill, but on the whole, I would like to put my entire statement in so that we can go to questions.

[The information follows:]

Mr. UDALL. Some of you I know that are on this Committee are very familiar with my bill since it has passed several times through the Committee and through the House. It will establish a three year pilot project, offering grants to SBDCs to assist the Native American, Native Alaskan, and Native Hawaiian populations with small business development needs.

Those of us on this Committee know how important small business entrepreneurship is to the health of our economy. The 25 million small businesses in America create 75 percent of all new jobs and help provide economic growth and development to their communities.

However, there are places in this country where economic development and the prosperity experienced by so many has yet to reach. These areas deserve our attention and assistance. Consider this. Nowhere in America has poverty persisted longer than on or near Native American reservations.

These lands suffer an average unemployment rate of over 45 percent according to the Bureau of Indian Affairs, which is almost four times the national average. Nevertheless, there is reason for hope. Small business creation has dramatically increased on tribal lands, and this has led to some job growth in these areas.

In fact, in recent decades, Native American business growth and gross receipts have vastly surpassed overall small business growth rates and total growth receipts. I would like to continue the growth and expansion of small business enterprises with H.R. 2981, which passed the House overwhelmingly in the past two sessions of Congress.

My bill ensures that Native Americans, Native Alaskans, and Native Hawaiians seeking to create, develop, and expand small businesses have full access to the counseling and technical assistance available through our Nation's small business development centers.

This bill helps SBDCs extend these resources to areas that will benefit greatly from their assistance. The bill permits State SBDCs to apply for additional SBDC grants to establish one or more Native American small business development centers on or near Native American lands. That the business development tools offered by these SBDCs can assist Native Americans with the training, mentoring, and technical assistance to build sustainable businesses in their communities.

In an effort to ensure the quality and success of the program, my proposal requires grant applicants provide to the SBDC with their goals and objectives for services to be provided for the grant, including their experience in assisting entrepreneurs with the difficulties in operating a small business.

Additionally, the applicant must show their capability to provide training and services to a representative number of Indian tribal members, Native Alaskans, and Native Hawaiians. Most impor-

tantly, this bill ensures the participation of governing bodies of tribal organizations to ensure that these business development tools are provided in a culturally sensitive manner.

While the current economic situation on Native American lands is grave, it holds great promise for the future. It is clear that we can and must do more to aid Native American entrepreneurs.

I believe that this legislation will help the Native American population with the opportunity to build sustainable businesses in their communities, which will in-turn create further economic opportunities for those that need them with the most. And with that, once again I thank the panel, and I yield back to the Chairman.

Chairman MANZULLO. Thank you. Let me ask the first question of Ms. Naranjo and Congressman Udall. You testified on the same thing. As I understand it, Congressman Udall, your bill would make an extension, and not exactly another office, but an extension of a nearby SBDC to a Native American tribe at the reservation site? Is that the thrust of your bill?

Mr. UDALL. Chairman Manzullo, and ranking member Velazquez, the basic thrust of the bill is to try to get SBDCs in a culturally sensitive way to reach out there on to the reservation and provide services, and generate entrepreneurs, and train them, and mentor them, and move them along in the process to really get businesses going.

And if you look at 200 years, and you look at people on many of these tribal and Native American lands, and you ask why there has not been a job growth, and why there has not been development.

And I think it really comes down to the fact that some of our economic developments, and economic development projects have not in a culturally sensitive way tried to work with the people that are there that want to do these kinds of things.

She is a good example of the success, but I think we could do a lot more. And I am convinced that with your support of the support of the ranking member of the Committee that we can get this done. We can really move forward with tackling this unemployment situation, which is as I said four times, or many, many times more on some of these tribal lands, and four times the national average.

Chairman MANZULLO. Ms. Naranjo, how far do you live from the Espanola SBDC office?

Ms. NARANJO. The San Juan Pueblo is located like five miles away from where the office is located at.

Chairman MANZULLO. Okay. What would this bill do in your situation?

Ms. NARANJO. Well, as I mentioned—

Chairman MANZULLO. You are pretty close to the office there.

Ms. NARANJO. Yes, and I am fortunate that I am. But there is other tribes that live a lot further away than I do.

Chairman MANZULLO. There is a distance problem?

Ms. NARANJO. There is, and as I said, we are a rural community, and that is why I invite you all to come to my home.

Chairman MANZULLO. I raise beef cattle, and so we don't do those in the city. But there are areas in this country where Native American reservations are located huge numbers of miles away from the nearest SBDC. Is that the thrust of your bill, Tom?

Mr. UDALL. Yes, Mr. Chairman, it is. And she is fortunate because it is close, but there are other—we have 22 tribes in New Mexico. We have the largest tribe in three States, the Navajo Nation, which is the size of probably many of the good-sized States up in the northeast; bigger than Connecticut, and New Hampshire, and Vermont put together, the national reservation itself.

The SBDCs are sometimes—I think the two SBDCs that I am familiar with are 20 to 30, to 40 miles on the outside of the reservation's boundaries, and we are just talking about the Navajo Reservation. So we are talking about trying to nudge the SBDCs that are in operation right now to be more culturally sensitive, and to reach out in these particular areas.

Chairman MANZULLO. Is there a need for more staff?

Mr. UDALL. More staff, more programmatic efforts to push the kinds of good things that we know that SBDCs do into the reservations, so that you can have on reservation businesses.

I mean, many of these Native American people in New Mexico want to remain on their tribal lands, where they have been for in some cases thousands of years. And the effort I think will work out the best when you do it in a culturally sensitive way, and reach out on to the reservation.

Chairman MANZULLO. You could put Norma in charge of the program couldn't you?

Mr. UDALL. Hey, I would be happy to do that, Mr. Chairman. I don't have any problem with that. We have some good SBDC directors, but I think that this really targets the Federal SBDC efforts in a very specific way to help Native Americans.

Chairman MANZULLO. The second question is what is there—let me try and frame the question. How would you direct a program—and I know that you used the word culturally sensitive, but give me some parameters.

Mr. UDALL. Why don't I let her start, and then I will try to—

Chairman MANZULLO. Well, she has a unique situation there. Do you understand my question, Norma?

Ms. NARANJO. Yes. Mr. Chairman, and Members of the Committee, as I mentioned earlier, and maybe I did not make my point as clear as I wanted to, but I feel that people need to understand how you live, and where you live.

They need to understand that the talents that you have, a lot of times people think that, well, Native Americans have this to offer, but they don't know how to go about getting this information out.

And reaching out to get the services that are needed, and that is why I said that Native American people are very talented. Like I mentioned earlier, I went to the museum next store, and you will see all this talent, but the people don't know how to go about getting the services. And I think many times that people forget that we are part of the economy of the State of New Mexico.

Chairman MANZULLO. Let me ask you a question. The bill has passed the House a couple of times, and the Senate sits on it, and if you were made the director of this program, what would you do? Is that a valid question?

Ms. NARANJO. Well, I think the first thing I would do is I would lead and educate the tribal leaders, because they are the ones that you would have to meet with as protocol. Just like you have to

come here and meet, you have to meet your native leaders as protocol to let them know and educate them that you are getting funding for this particular program.

And then if you get the funding, you come on to the reservation, and you educate the people as to what the money is about so that they can have an understanding. I had no clue that there was an SBDC in Espanola, New Mexico. I didn't know.

I didn't know how to go out and get some help. I just came upon them by accident.

Chairman MANZULLO. I think you have answered my question. People have to know that it is available.

Ms. NARANJO. Yes. You need to educate people in terms of what is available to them, and what does that office there for.

Chairman MANZULLO. I appreciate that. Tom, if you wanted to add a footnote to that.

Mr. UDALL. Well, I just wanted to speak a little bit further. I think that what she is emphasizing is that when these communities have been in one spot, and in particular in New Mexico, where you are talking thousands of years where they have lived, and for many it is an agricultural life, or a pastoral life where they are herding sheep, and yet in a very, very talented people.

But there is a kind of protocol as she has said within the community in terms of bringing things on to the reservation or on to the tribal lands. And part of that is the government to government relationship and having the individuals go out and talk to pueblo leaders.

And the pueblo leaders then introduce the program, and the ideas and things to the community, and help with it. And that is what I mean when you asked me what does culturally sensitive mean. It means that you deal with the community that is there.

You try to break through what some would call barriers. To me, it is just cultural traditions, and to get through them, and then when a very capable person like Ms. Naranjo discovers this, and gets the training and assistance, and all of that, everything takes off from there.

And I think that she is a great example of exactly what we are trying to do in a dramatic way across the board on these tribal and Native American lands in these bills.

Chairman MANZULLO. Thank you. Ms. Velazquez.

Ms. VELAZQUEZ. Ms. Naranjo, you have the talent, the skill, the creativity of cooking, but you don't know how to go about it, how to market the business?

Ms. NARANJO. Exactly.

Ms. VELAZQUEZ. You are in the business of cooking and you are not in the business of teaching other people how to be successful?

Ms. NARANJO. Exactly.

Ms. VELAZQUEZ. And that is what this center would do, and also what are the type of programs. What are the type of programs that exist, and provided by the Federal government there, but you don't know. Information is power and you don't have it.

So once you know that there is loan guarantees by the government, that will help you get a loan, and that will allow for your business to expand, and then you will benefit. And the other thing

is that people need to know that you have to build credit and to have a credit history.

But it takes more than just putting your profits or your money under the mattress. That you need to have a savings account, a credit account, and you have to show that you are responsible in paying your bills.

So that is the type of technical assistance that can be provided through this program, and we have to understand the cultural uniqueness of certain communities that we might think that, hey, it does not make sense to them, but to them it does make sense, and we have to get into their mind frame to understand that.

But I would like to address my question to the SBDC directors. I have talked with a number of directors of local and State centers, and they tell me that the cost of running their centers is getting more expensive.

As with most small business owners, whether it be with increased rents, health care costs, or even energy costs, prices, they are starting to be hit with rising costs. Yet, funding for their centers remains flat.

Do you find it more difficult to deal with the funding provided by the Federal government in light of these increased costs? Is it more difficult to retain veteran works on your staff?

Ms. KAUTEN. I think the ranking member is absolutely correct. One of the things that I think has happened at the national level is a new phenomenon to embrace entrepreneurship as a strategy for States. I think that five years ago, and certainly 10 years ago, as we were talking about economic development in the broader sense, and ways of kind of increasing the economy of States, we would be talking about strategies of working with existing businesses, or talking about in the worst case scenario of perhaps going to other businesses in other States, and bringing those businesses across our borders.

I think that there is a lot less acceptance certainly of the recruitment strategy, and as we have become I think more sensitive to how it is that we grow in our State—we have a State of 5 million people, and we have budget deficits that continually keep us looking for ways to try to create a more robust economy.

But as we look in those areas, we are becoming I think more aware of what entrepreneurship is, although a long term strategy, and although one that is risky, is certainly in many communities the only alternative that they have to try to grow and to be more successful, and to try and get the tax revenues that they need to keep themselves going. And that means that they are looking to us.

Ms. VELAZQUEZ. Ms. Kauten, could you please answer my question? Do you feel that you are getting less money than you were getting like in the early 2001 from the Federal government?

Ms. KAUTEN. The capacity, and what we find is that all that means is that we do not have the capacity to deal with what these natural phenomenon are. And as the costs go up and the capacity remains the same, and the demand goes up, obviously that means that we are struggling to try to find ways to continue to keep our payrolls.

Ms. VELAZQUEZ. Mr. Conroy, if rents are going up, and if health care is going up, if prices are going up, if energy is going up, and

if your money is getting less in terms of your budget, are you afraid that the services provided by SBDCs will be diluted?

Mr. CONROY. That is something that is of concern to us. In Pennsylvania, over the past 12 years, we have taken a 25 percent cut in Federal funding of this program, and it has been a real challenge to try to come up with other sources of resources to be able to make up for that.

And with advances in technology, and other approaches that we take towards maximizing efficiency, we have been able to pretty much keep our service delivery stable. but it is becoming increasingly difficult, and quite frankly there are portions of the state that are terribly under-served.

And anything—and one of the things that is interesting, I come down here and meet with a lot of the members to talk about what has been happening in their districts, and if you look at the district profiles of service delivery, it varies substantially among the 19 different districts that we have in Pennsylvania.

And that is because it is a factor of resources, and when those programs came into the SBDC program.

Ms. VELAZQUEZ. Ms. Kauten, this bill, 3207, provides an additional \$1.5 million to set up the second stage PeerSpectives networking program. How do you think you are going to achieve the goals that are set out by this program with such a small amount of money?

Ms. KAUTEN. The bill establishes a pilot in one of each of the regions within the SBDCs, and I think it provides an opportunity for the SBDCs to identify and to be able to demonstrate the impact of a program like this.

It certainly is only a start, but nevertheless it is a start in a target market that I think all the SBDCs around the country have been trying to access more aggressively, and I think that because that market is there, and one that we want and think is appropriate for us to service, we think that those pilots will be one way that we can show that we have a particular set of services that is very compatible with the learning needs of growing businesses.

So only because it is a pilot, and only because there are a few States that would be designated to begin that service, I think is the \$1.5 million adequate.

Ms. VELAZQUEZ. Well, it would be adequate if you are taking resources from programs that are already in existence under the SBDC to be able to provide the services required under these new proposals.

But I think that we should be in the business of providing the resources that you need to continue to do the job that you are doing. Dr. Chrisman, you said before that they created 56 thousand new jobs, and that is a way to increase the tax revenue base of our economy.

Don't you think that by increasing resources so that SBDCs continue to do their job of generating more jobs by providing the technical assistance that would allow entrepreneurs to continue to create those jobs, don't you think that instead of the \$88 million that we are providing, if we provide the \$108 million that is authorized that this is a way to reduce the deficit?

Mr. CHRISMAN. That would be my conclusion, yes.

Ms. VELAZQUEZ. So sometimes there are certain things that do not make sense, because if we want to get our economy back on track, we should provide the economic tools that would allow for small businesses to continue to do what they do best, and that is creating the jobs.

After all, they create 75 percent of all the new jobs, but instead of providing those economic tools, we are cutting the budget in those programs that are precisely tackling the issue that our economy is facing today, and that is to get it back on track.

Mr. CHRISMAN. Yes, I think that putting money into the SBDC program is a very good investment, and accomplishes the kinds of things that I think the government wants to accomplish. In other words, growing the economy out of a deficit position, and I think that this makes a material contribution to that.

Chairman MANZULLO. Mr. Fortenberry.

Mr. FORTENBERRY. I want to thank you, Mr. Chairman, for holding this important meeting, and I want to apologize for coming in late, but I was trying to do a little catch up and Dr. Chrisman, the ranking member actually preceded me in a similar line of questioning.

And I just wanted you to summarize your findings in terms of the economic multiplier impact that this government investment has overall, and if you can, compare it to other governmental investment.

In other words, when we look at the Highway bill, for instance, it has been suggested that there are significant economic multiplier effects there because of the job creation and increased tax revenue from further economic development.

Have you done any cost comparisons in terms of this investment by the government and its return as measured in increased economic activity, and therefore, tax revenue? And do you have other measures by which you are suggesting that this is a good investment?

So could you quantify those in a way and then compare it to other government investments, or have you ever done that?

Mr. CHRISMAN. Unfortunately, I have never done that. The numbers that I have given in my reports are direct impacts. They don't include a multiplier effect. If you would include a multiplier effect, then the numbers would be greater, which of course the suggestion of the multiplier effect is that when new businesses are created, and when existing businesses grow, they create opportunities for still other businesses. But that has not ever been done and this is just the direct effect.

Mr. FORTENBERRY. Well, I liked your analytical findings as well, in terms of pointing out the cessation that can sometimes occur through these centers of insufficient placement of resources. In other words, stopping bad business decisions.

I know that is terribly difficult to qualify and I don't know how you measure the economic benefit of stopping a bad decision, but that is an important factor as well.

Mr. CHRISMAN. Yes, I think that that is a very important thing that the SBDC does, and it is very, very difficult to measure the negative case. In my written testimony, I discussed one example

that I was directly involved in back early in my career when I was a Ph.D. student.

I was a staff counselor and I worked with one client in particular who was planning on getting a \$5 million government grant to begin printing and distributing some books that they had prepared. I did a detailed analysis for them, and my results suggested that in a five year period that they would eat all that \$5 million, and need another \$3 million before they reached a positive cash flow.

So at the time, I figured that we probably saved the government about \$5 million, and the cost of running the SBDC in Georgia at that time was something like a million-and-a-half a year. So that was one case.

And that was an extreme case, but it was pretty substantial, and I think if you had a chance that you would find that there are a number of those kinds of cases that occur every year.

Mr. FORTENBERRY. And, Mr. Chairman, if I may follow up on that right quick. Perhaps those of you who run the centers might be able to comment on that, in terms of how many clients you have, and that you convince that they do not need to do something, and therefore place resources inefficiency, resulting in a negative multiplier effect if you will, when they could have been placed more efficiency elsewhere?

And I don't mean to put you on the spot. That is a hard time to calculate, I know.

Mr. CONROY. Well, actually, it is funny, because it is something that we have struggled with as long as I have been with the program. I think that one of the greatest things that we do is that we help people preserve their assets so that they don't take out another mortgage on their house, or they don't spend their kids' college funds, or retirement savings on something that as Dr. Chrisman pointed out may not be viable.

But we sort of feel that our job is to create positive economic impacts and it is very difficult to measure a hypothetical negative impact. We do track to some extent the number of folks who decide not to go into business as a result of working with us.

But what we have done is that we have set up a process for delivering services in such a way that most of these folks self-select themselves out before they invest a significant amount of time. So, for instance—

Mr. FORTENBERRY. So you don't have to deliver the bad news is what you are saying?

Mr. CONROY. Well, they come to realize it on their own. The first thing we do is we make them go through a course called the First Step Course, and it is kind of a cold shower, and this is what is involved in being an entrepreneur.

And then we have a series of other things. What we have found is that of the folks that work with us in a consulting capacity to start a business, 25 percent of them go on to start a business, and 80 percent of those are still in business eight years later. So I think it is a process that works.

Mr. FORTENBERRY. So, 25 percent of those who start, of those 25 percent, 80 percent are still in business eight years later?

Mr. CONROY. Yes.

Mr. FORTENBERRY. That is your track record?

Mr. CONROY. Yes.

Mr. FORTENBERRY. Now, is that a self-selective figure based upon your work with them, or other determining factors that you point out, such as many more advanced experience or education in the area?

Mr. CHRISMAN. The study that Christian is referring to looked at the amount of assistance and compared it with survival and growth rates. We controlled for factors such as business experience, management experience, industry experience, start-up experience, general education, business education, entrepreneurial education, and other assistance received, gender, ethnic background, and type of business, and a variety of other factors. So those were all controlled for in the study.

Mr. FORTENBERRY. [Presiding] Excellent. Thank you. Are there any further questions?

Ms. VELAZQUEZ. Yes, Mr. Chairman. Thank you, Mr. Chairman. Ms. Kauten, while I understand that the definitions in H.R. 3207 are taken directly from the Edward Lowe Foundation study, I am troubled that this definition is very confusing.

According to the way that I understand it, if a company has five employees, and less than \$750 thousand in sales, or working capital, it is not eligible. But if a company has 98 employees, and \$10 million in sales or working capital, it is eligible.

This seems to penalize smaller companies, and I would like to understand the logic of that. Can you please comment on that?

Ms. KAUTEN. Absolutely. As I tried to describe in the earlier testimony, this was in Wisconsin an attempt to target a particular stratum of businesses that we found that we were not serving as adequately as we thought that we needed to.

It was the result of a planning session that we know that there is a group of businesses that have been in business for a while, and that all of the criteria that the ranking member just identified, and that seldom use the SBDC services.

We thought that there was an opportunity to help them grow and the research suggested that these companies that now have been in business for several years are really posed to grow. That there is a lot of return in working with them.

The definition is as the ranking member identified always a difficult one. The problems surrounding that is that there is nothing in the research that very definitely identifies those businesses that have the potential to grow and the intent to grow in definitive terms.

It may not be perfect, but in Wisconsin, we have found that they have identified a group that has enough similarity and that the problems that they identify within those roundtables are similar enough that they can learn from each other.

The definitions were not meant to exclude businesses. They were simply meant as a way—

Ms. VELAZQUEZ. But it does.

Ms. KAUTEN. And roundtables could be appropriate for other groups as well. This is only the Wisconsin experience, and what we have done is identified a group and created an educational activity around them.

The similar activity could also be identified for those that are in other categories. But the thinking is that the experience of having been in business for a while and having employed people, and having understood now not the start up issues, but the growth issues, are those things that are being discussed in Wisconsin in those roundtables.

Ms. VELAZQUEZ. Ms. Kauten, the lowest measure of the Small Business Administration size standards is 50 employees. In fact, SBA size standards are focused more on making sure that true small businesses receive assistance. After all, it is small businesses that we are supposed to focus on.

They are the ones in need of technical assistance, and the mission of the Small Business Development Center is to provide technical assistance, and capacity building for small businesses.

This bill allows companies with as many as 500 employees to participate as long as they meet the revenue criteria. If you go by the SBA size standards, most of these companies will not qualify for any other small business programs government wide.

So I just want you to explain to me why this double-standard? One for small businesses for every other program, and different measures for this initiative? If we are going to adopt this proposal shouldn't it be more in line with SBA size standards?

Ms. KAUTEN. It certainly should, and the criteria of between six employees and 99 was meant to be a ceiling of 99, and the criteria of \$750 thousand to \$18 million was meant to be a ceiling of \$18 million.

So in Wisconsin, the kinds of businesses that are in those groups, that is the way that we interpreted those rules. There is no business that is larger than 99, and in fact the reality is that most of those businesses are precisely in the category that the ranking member mentioned; less than 50, and many with 20 and 30. It is that size category specifically that we are looking for.

Ms. VELAZQUEZ. But do you recognize that \$18 million in working capital does not represent a small business?

Ms. KAUTEN. Working capital was a definition that we tried to use in order to not exclude those businesses that in fact are based on IP, the biotechnology business, that have capital, but don't have revenue. So that was the thinking behind that.

Ms. VELAZQUEZ. Okay. Another question that I have is with respect to the working capital measure in the bill, is how this will be verified? Unless a company provided financial statements to the SBDC, which I don't see them doing voluntarily, who is going to evaluate this eligibility factor?

Ms. KAUTEN. I can only tell you what we have been doing in our State. We tried to get the kind of cohorts together to do what it is that we have been trying to do. We established those standards and in fact the participants self-identified themselves to be within those categories.

Because the roundtable in and of itself is a dynamic among businesses that have as I said like issues, we found that was adequate to bring people to the table that were alike, and we have not found in our 103 participants that we have had in this pilot year that we put together that people self-identified themselves inaccurately. So they followed the criteria. We did not ask for a financial statement.

Ms. VELAZQUEZ. So you don't see any room here for abuses?

Ms. KAUTEN. I can only say that in Wisconsin, with the experience that we have had now for a year, and a hundred people and 11 sessions, that there have been none. That has been our experience.

Now, if the Committee saw that there needed to be more criteria in there, in terms of self-identification not being an appropriate way, that certainly could be built in. I am only saying that that has not been built into it.

And to tell you the truth, my whole objection and concern is that in light of the insufficient money that is provided by the Federal government, and the President's request for the budget for the SBA and programs such as the SBDCs, when we know that you are diluting services because you don't have the resources that you need in order to provide the kinds of services that your clients are demanding, now to come and dilute what you are doing much more to service a segment that really have been quite successful.

Our mission is to provide for those who we need to help them in order to grow and to expand their businesses. But if you are talking here about \$10 million given the financial constraints regarding the budget, I have a question with that.

Ms. KAUTEN. And I understand the ranking member's precaution there. Those businesses are in fact posed to growth, and in our experience, they are also needing assistance for growth.

Ms. VELAZQUEZ. But not at the expense of those which the mission, the core mission of the SBDCs, is to help those start-ups and those that are growing, but to take away those services that you are supposed to be providing to those businesses that are doing quite well at the expense of those, then the first order should be let us get the funding that you need to get, \$109 million authorized by this Committee, and then we can talk about other programs. Thank you, Mr. Chairman.

Mr. FORTENBERRY. Thank you, Ms. Velazquez. With that, we will conclude today's hearing. Thank you all so much for coming, and I appreciate your willingness to join us, and for the portion of the time that I had with you, your insightful comments. We are very grateful that you took the time to be with us today. We are adjourned.

[Whereupon, at 3:25 p.m., the Committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, New York

Congress of the United States
House of Representatives
109th Congress
Committee on Small Business
2501 Rayburn House Office Building
Washington, DC 20515-6315

Statement of Donald A. Manzullo
Chairman
Committee on Small Business
United States House of Representatives
Washington, DC
July 13, 2005

Good afternoon and I would like to welcome everyone to the Committee's hearing on the Small Business Development Center or SBDC program. Small business development centers are located in every state, associated with the American higher education system, and provide invaluable advice to entrepreneurs. Today's hearing focuses on four bills designed to provide additional focus for delivery of services by SBDCs to America's small businesses.

In 1980, the Senate Small Business Committee determined that the provision of advice and services to small businesses should follow the cooperative extension model. Congress created the Small Business Development Center program to take advantage of the knowledge and dissemination capability of America's colleges and universities.

The interim twenty-five years have seen more change in the American economy than occurred during the 75 years between the establishment of the Cooperative Extension Service and the establishment of the Small Business Development Center program. Small businesses today face new challenges in an increasingly global economy. In addition to market challenges, small businesses must cope with a regulatory regime far more complex than any during the country's history. The Committee must examine whether the Small Business Development

Center program will be even more effective because of the new tools offered by the bills we are considering today.

Today's hearing will consider four bills that make modest adjustments to the SBDC program. Each bill is designed to offer targeted services and assistance by a select group of small business development centers. Mr. Sweeney's bill would provide additional resources for regulatory compliance counseling. Mr. Udall's bill would improve access to SBDCs by the rapidly growing population of Native American small business owners. Mr. Brady's bill would ensure that SBDCs begin educating our vocational and technical students about entrepreneurship. These bills have been routinely approved by overwhelming margins in the Committee and House during the past two Congresses. My goal is to act again in a similar bipartisan manner in order to prod the Senate into finally passing these noncontroversial measures. Finally, Mr. Fitzpatrick's bill targets assistance to so-called "gazelles" – small businesses that are facing rapid growth and create most of the new jobs generated by small businesses. This bill would use the SBDC network to help establish peer learning opportunities so that these dynamic small firms can solve business problems in a cooperative dialogue among their colleagues. I look forward to working with the members to ensure prompt passage of the legislation.

Now I will recognize the ranking member of the full committee, the distinguished gentlelady from New York, for her opening statement.

H.R. 230 – National Small Business Regulatory Assistance Act of 2005
House Committee on Small Business
Statement by Hon. John E. Sweeney
July 13, 2005

Let me begin by first thanking you, Chairman Manzullo, and the Ranking Member, Ms. Velazquez, for this opportunity to testify on behalf of my bill, H.R. 230, the National Small Business Regulatory Assistance Act of 2005.

For over 25 years, Congress has recognized that small businesses face substantial regulatory burdens. When Congress passed the Small Business Regulatory Enforcement Fairness Act nine years ago, we recognized something almost all small businesses would agree on - federal regulations are complex and often difficult to understand. SBREFA required federal agencies, when issuing new regulations that would have a significant economic impact on a substantial number of small entities, to prepare plain English compliance guides. I view the SBREFA as a good start in providing regulatory assistance to small businesses. Still, there is more work to be done to help small businesses. We need to provide small business owners with a vast array of tools to assist them in dealing with the many complex state and federal regulations.

During my first term in Congress, I served on the Small Business Committee, so I understand the importance of small businesses to our local economies. Their success is vital to help our communities grow and prosper. More importantly, small businesses create job opportunities for our constituents. A multitude of regulations exist that small businesses find difficult to understand, let alone comply with. This committee has remained committed to assisting small businesses in dealing and complying with regulations.

In the spirit of helping these entrepreneurs, I have reintroduced H.R. 230, the National Small Business Regulatory Assistance Act in the 109th Congress. This legislation would assist small businesses in successfully finding their way through the maze of regulations that have proliferated in recent decades.

In each term of my tenure in Congress, I have introduced this legislation, and each time it has passed the House by an overwhelming margin. This Committee and the House of Representatives has stated time and time again its support for this legislation. I appreciate my colleagues' support and share with them the desire to reduce the strain small business owners face each day.

H.R. 230 establishes a program within the Small Business Administration, in which the Administrator, in consultation with the National Association of Small Business Development Centers, develops partnerships with federal agencies. SBDCs then become a point of contact for small businesses to turn to for free-of-charge, confidential advice concerning regulatory

compliance. The program will operate in two states in each of the ten federal regions of the Small Business Administration.

In order to continually track progress and ensure the program is running effectively, each participating SBDC will submit quarterly reports on this program to the National Association of Small Business Development Centers. The Association would in turn, submit an annual master report highlighting the success of the program, to the President, the Regulatory Enforcement Ombudsman, and the House and Senate Small Business Committees. The report will include an analysis on the assistance SBDC provided and highlight any conflicting information given by federal agencies to businesses.

The report will include a description of the types of assistance provided, the number of small business that contacted participating SBDCs, the number of small business concerns assisted by participating SBDCs, information on outreach, and, most importantly, any conflicting information or advice given by federal agencies to one or more businesses.

Formation of such a relationship between SBDCs and federal agencies is not a new idea. Some SBDCs throughout the country are currently "thinking outside the box." They have already developed relationships with different federal agencies and independent compliance groups to build upon each other's resources in order to assist small business owners with regulatory compliance. H.R. 230 will not replace these current regulatory compliance programs. Rather, it will serve as a supplement to existing programs. In some instances, participating SBDCs may refer businesses to other existing regulatory compliance programs, if necessary. H.R. 230 intends to apply regulatory compliance programs on a nationwide scale. This way, small businesses everywhere will have somewhere to turn for compliance questions and concerns.

We all know that compliance with federal regulations remains one of the biggest challenges confronting small business owners. The vast majority of owners are honest, hard-working Americans who want to do what is right. Often, it is difficult to balance the demands of running a successful business and comprehend the various state and federal regulations by which a business must abide. Many times, when a small business owner operates in violation of a regulation, it is unintentional. They are not seeking to evade the law. Due to the complexity of the regulatory process, they often simply do not fully understand a regulation, or do not know what the right course of action is. My legislation will help them better understand the confusing regulations and offer guidance and consultation on compliance.

Before I was elected to Congress, I served as Commissioner of Labor for New York State. I know firsthand the difficulty that exists in trying to balance the needs of running a small business and maintaining a safe working environment. We need to encourage our nation's small businesses to thrive and flourish, but I also understand the need to protect workers, communities and the environment. H.R. 230 will accomplish both.

As State Labor Commissioner, I instituted an exhaustive review process that evaluated nearly

150 rules and regulations, resulting in the elimination of 56 regulations. That represented a 30% reduction of outdated, unnecessary and oppressive restrictions on New York's businesses. Additionally, I implemented a directive for the Public Employee Safety and Health Program (PESH) to increase the rate of workplace compliance. This proposal had three objectives: to educate employers and employees, to increase regulatory compliance rates, and reduce what I considered a hidden tax on small business.

As a result of the approach that I have just described, in 1995, failure to abate notices, which inform an employer that it has not corrected a violation in a timely manner, numbered only 99 in the entire State of New York, down from 244 the previous year.

When government works with employers and businesses in a cooperative, non-threatening manner, compliance rates increase significantly. Moreover, injuries and deaths at the workplace decrease significantly. My legislation, H.R. 230, develops a partnership that will allow government and small businesses to work together to help businesses understand regulations and comply with these regulations in an efficient manner, rather than resorting to heavy-handed enforcement activities. This will enhance our local economies and help our workforce.

This is a good government bill and I urge the support of my colleagues.

Thank you, Mr. Chairman, Ms. Velazquez and Members of the Committee.

**MICHAEL G. FITZPATRICK'S
SMALL BUSINESS COMMITTEE TESTIMONY RE
THE SECOND-STAGE SMALL BUSINESS DEVELOPMENT ACT OF 2005
(H.R. 3207)**

Thank you Chairman Manzullo. Also, Representative Velazquez, thank you for considering the Second-stage Small Business Development Act of 2005. This bill is important legislation to America's continued economic growth. It is too your credit that you are today discussing it in the House Small Business Committee.

Small businesses are the engine of America's economy. In my District, the Pennsylvania 8th, nearly all of the businesses are small businesses and these enterprises are the source of economic growth in the region.

At the core of every small business is the American entrepreneurial spirit. It is this spirit, in all its facets -- creative, hopeful, daring, uncertain, prayerful, driven, loving -- that is the force of American business. When properly nourished it grows. It grows from a small venture -- a desk, a drawer of papers, a telephone -- in a one room office or garage, into a fledgling concern with a better idea and big dreams. Eventually, with work, toil, tears, and a bit of luck, the company is on the verge of taking-off. These businesses quickly find they must be accountable, accessible, and responsive to their customers. To be successful these qualities are essential. The companies' owners are infused with the spirit of entrepreneurship. Within every community, in every city and town, these are the businesses that promote and realize the American dream. These are the companies that spur our nation's economy. They deserve our support and encouragement.

Citizens of my District have repeatedly told me Washington regulations are confusing, onerous, time consuming, and hinder the growth of their businesses. This is unacceptable. What right or special dispensation does a Washington bureaucrat have to crush under mountains of paperwork a citizen's business? To most of America, it is merely a statement of the obvious when they hear federal regulations must not stand in the way of America's small businesses and entrepreneurs.

Getting out of the way of business is only half of Washington's responsibility. It must do more. It is imperative Washington create an environment for America's small businesses to succeed. That is the purpose of HR 3207, the Second-Stage Small Business Development Act of 2005.

Second-stage businesses are the enterprises with the greatest potential for growth and job creation. It is second-stage businesses that power America's economy and create jobs.

Numerous academic studies are memorialized in Eric Flamholtz's and Yvonne Randle's 2000 book: *Growing Pains -- Transforming From Entrepreneurship To A Professionally Managed Firm*. Flamholtz's and Randle's research identifies seven stages of organizational growth. The first four stages deal with a new venture through

organizational maturity. Stages 5 through 7 deal with the period of a company's life cycle after it attains organizational maturity. Mature companies are successfully managed and generating earnings. They are the foundation of every nation's economy, not just America's. But, how can we create the next generation of mature companies and what can Washington do to help? America needs new companies with fresh ideas and vigor. My bill, HR 3207, focuses on the new companies in the early stages of a growth. HR 3207 targets new companies with demonstrable growth potential but a still uncertain future and are in need of advice and counsel.

The resources and business know-how of our nation's network of Small Business Development Centers are great assets to our nation's small businesses. HR 3207 taps into these resources and based on Flamholtz's second-stage model identifies companies that demonstrate potential for rapid expansion of revenues and number of employees. Through HR 3207 Washington will be able to target its help and create more of high growth, second-stage businesses.

The statistics are worth considering. Among all small businesses only 3-5% are on the verge of rapid growth in revenues and employees. It is this small percentage of companies that are the true, fast-paced enterprises that suddenly grow by 20% per year or double every five years in both revenue and employees. HR 3207 will create more companies with this high growth potential and with only the smallest amount of help from Washington.

The Second-stage Small Business Development Act defines second-stage businesses broadly. Companies from multiple industries will qualify for the second-stage category. It is the diversity by industry and business type that complements the other critical element of HR 3207: the peer learning method.

HR 3209 provides the Small Business Development Center in each of the ten Small Business Administration regions grant money to implement the peer learning roundtables and seminars where small businesses are linked to other similarly situated businesses. The peer learning programs will be facilitated by the Small Business Development Center network and organized by categorizing groups of owners, presidents, CFO's, and CEO's of non-competing second-stage small businesses. The peer groups will meet regularly with a professionally trained facilitator to learn how to advance their respective business to the next level. Each business will benefit from the practical experience of other business persons managing the same revenue, employee, trade, inventory, cash flow, and other problems facing small businesses on the verge of rapid expansion.

The Second-stage Small Business Development Act will create a four-year pilot program to identify and assist second-stage small businesses, which have the capacity for significant growth and job creation. The minimum grant to any State is \$50,000. No matching grant from the State will be required. Total authorization level for this program is \$1.5 million for each year and will terminate in the fourth year after the disbursement of the first grant. The program is designed for it to become self sustaining and require no

additional federal investment. HR 3207 is conditional upon receiving a specific appropriation.

In sum, Washington must do more than get off the back of small businesses. Washington must facilitate the growth of businesses with potential. These are the businesses that create economic growth and create jobs. HR 3207 focuses on businesses with the greatest potential and that will become our nation's future. HR 3207 deserves this Committee's support and the support of Congress.

Thank you.

TESTIMONY
of the
Honorable Tom Udall
Congressman, 3rd District of New Mexico

Mr. Chairman and Ranking Member Velásquez and fellow members of the Committee:

Good afternoon and thank you for this opportunity to speak to the committee about my proposal. Some of you are familiar with my bill, which will establish a three-year pilot project offering grants to SBDCs to assist the Native American, Native Alaskan, and Native Hawaiian populations with their small business development needs.

Those of us on this Committee know how important small business entrepreneurship is to the health of our economy. The 25 million small businesses in America create 75 percent of all new jobs and help provide economic growth and development to their communities. However, there are places in this country where economic development and the prosperity experienced by so many has yet to reach. These areas deserve our attention and assistance.

Consider this; nowhere in America has poverty persisted longer than on or near Native American reservations. These lands suffer an average unemployment rate of over approximately 45 percent, according to the BIA, which is almost four times the national average. Additionally, almost 40 percent of those living on reservations live below the poverty rate, which is over three times the national average. Native Americans and Native Alaskans are much more likely to live in homes with incomplete plumbing, incomplete kitchens, and no telephone service. This has also led to a decline in the well-being of Native Americans over the last several decades. Diabetes, tuberculosis, cardiovascular disease, alcoholism, SIDS, fetal alcohol syndrome, and, increasingly, AIDS, plague America's native communities at rates far greater than for other Americans, resulting in high mortality rates and low life expectancies.

Nevertheless, there is reason for hope. Small business creation has drastically increased on tribal lands and this has led to some job growth in these areas. In fact, in recent decades, Native American business growth and gross receipts have vastly surpassed overall small business growth rates and total growth receipts.

I would like to continue the growth and expansion of small enterprise with H.R. 2981, which passed the House overwhelmingly during the past two Congresses. My bill ensures that Native Americans, Native Alaskans, and Native Hawaiians seeking to create, develop, and expand small businesses, have full access to the counseling and technical assistance available through our nation's Small Business Development Centers.

For 25 years Small Business Development Centers have been delivering management and technical assistance counseling to millions of prospective and existing small business owners. Additionally, they have been providing these entrepreneurs with significant educational programs. These invaluable centers help with business planning, marketing, and financing as well as providing resources for these small businesses to enter the global marketplace. In 2004, New Mexico's 20 SBDCs consulted with almost 4,000 potential or existing businesses. These

SBDCs guided over 150 clients through the process of choosing to start a business, created more than 600 new jobs, helped 170 clients obtain more than \$20 million in loans, and helped clients receive more than \$10 million in equity financing.

My bill helps SBDCs extend these resources to areas that will benefit greatly from their assistance. My bill permits state SBDCs to apply for additional SBA grants to establish one or more Native American Small Business Development Centers on or near Native American lands. The business development tools offered by these SBDCs can assist Native Americans with the training, mentoring, and technical assistance to build sustainable businesses in their communities.

In an effort to ensure the quality and success of the program, my proposal requires grant applicants to provide the SBA with their goals and objectives for the services to be provided with the grant, including their experience in assisting entrepreneurs with the difficulties in operating a small business. Additionally, the applicant must show their capability to provide training and services to a representative number of Indian tribe members, Native Alaskans, and Native Hawaiians. Most importantly, this bill ensures the participation of governing bodies of tribal organizations to ensure these business development tools are provided in a culturally sensitive manner.

While the current economic situation on Native American lands is grave, it holds great promise for the future. It is clear that we can and must do more to aid Native American entrepreneurs. I believe that this legislation will help our Native American population with the opportunity to build sustainable businesses in their communities, which will in turn create further economic opportunities for those that need them the most.

In closing, I would like to mention that we will be receiving testimony from Ms. Norma Naranjo (Na-ran-ho) from the San Juan Pueblo, which is located in my home district. Ms. Naranjo is the owner of the Feasting Place "Connecting Earth & Spirit," a dining establishment featuring Native cuisine. In January 2002, Ms. Naranjo was recognized by the New Mexico State Legislature and the Governor's Office as one of New Mexico SBDC's successful clients during "NMSBDC Day at the Legislature." She joined 17 other successful SBDC clients at a recognition ceremony held in the Capitol's Rotunda in Santa Fe and she is an excellent example of an entrepreneur who has been successful through her ambition and diligence mixed in with a little help from the New Mexico SBDC. With additional funding to SBDCs who seek it, they can provide assistance to more entrepreneurs like Ms. Naranjo.

Thank you Mr. Chairman for the opportunity to discuss these issues today. I urge welcome any questions regarding my bill and hope you can all support this important legislation.

HR 527, Vocational and Technical Entrepreneurship Development Act
Rep. Robert A. Brady
Small Business Committee
July 13, 2005

Chairman Manzullo, Ranking Member Velazquez, thank you for giving me the opportunity to testify before you today about HR 527/S.139, the Vocational and Technical Entrepreneurship Development Act, which was reported favorably out of this committee and voiced before the House of Representatives during the 107th Congress.

It is an undeniable fact that entrepreneurship has been the driving force of job creation. Across the United States, small businesses make up more than 99.7 percent of all employers. It has been these entrepreneurs with fresh ideas and a willingness to take risks that have generated 60 to 80 percent of net new jobs annually over the last decade. But it takes more than a good idea, or knowledge of a trade to maintain a successful business.

To start a new business and remain profitable one must have sound management and organizational skills. Managers of all small businesses must be able to meet challenges such as recruiting qualified workers from a shrinking labor force, increasing worker productivity, and devising ways to meet workers' benefits. HR 527 will provide entrepreneurs with the necessary foundation to start and sustain a business.

Many entrepreneurs are drawn into starting their own business through partaking in career or vocational training in certain trades. HR 527 draws on the same successful curriculum used by the Small Business Development Centers and places it into selected vocational and technical schools throughout the United States. This pilot program would offer grants to intermediaries like SBDCs to provide technical assistance to secondary schools or post secondary vocational and technical schools for developing and implementing curricula to promote vocational and technical entrepreneurship.

This program is unique in that it takes individuals seeking trade skills and provides them with the opportunity to not merely become a laborer promoting the success of another's business but empowers them with the knowledge needed to be their own boss and add to US job creation and growth. Vo-Tech schools are the perfect start to expand business ownership; for someone receiving training as a mechanic, or hair stylist to become the owner of their

own successfully sustaining auto repair service or hair salon instead of an employee whose unique skills benefit another.

HR 527 bridges potential business owners with the requisite skills necessary to ensure the expansion and continued success of small business ownership. There is no doubt that the creation and successful maintenance of business enterprises fuels our economy but, the integral role that small businesses play can not be diminished. HR 527 builds upon the continued success of small businesses. Thank you for your time.

July 13, 2005

Before the Committee on Small Business of the United States House of Representatives
Re: Proposed Bill HR230

My name is Richard P. Gangi, owner and President of American Trim Manufacturing. I would like to take this opportunity to thank Chairman Donald A. Manzullo, Ranking Member Nydia Velazquez, and the Committee on Small Business of the United States House of Representatives for inviting me to offer my testimony here today. I would also like to offer my full support to Representative John Sweeney and his proposed bill, HR230.

As the owner of American Trim Manufacturing I presently employ 58 people including my two sons Rick and Daniel Gangi. We are a small family owned textile manufacturing company that supplies trimmings to various trades. Upholstered furniture manufacturers, recreational vehicle manufactures, pillow manufactures, and various other business trades, such as small purse manufactures, are examples of the many different trades that depend on our small operation. While 90 % of our product is used here in the United States we are also exporting a percentage of our manufacturing outside the country. Our greatest challenge is competing with similar products being produced in and imported from China; of course this in itself is not a new phenomenon. What is new is that our business is growing dramatically and I feel this is because we are a small business with a big heart, applying good old "American ingenuity."

I have not been able accomplish this without help. In the early stages of our small business development the Greene County Planning Bureau was a great help to us and they have continued to support us. More recently the New York State Small Business Development Center has worked closely with us for the past two years. I would like to thank Mr. Larry Larson in particular, as he has helped us immeasurably during this resent period of rapid growth. Mr. Larson has given us valuable advice and guidance. Most recently he has helped us find the right company to complete the computerization of our plant, Small Business Handyman, a local company. This help coupled with training programs that are offered has gotten us through this difficult, but necessary transitional period.

Throughout my career as a small business owner, I have come to realize one of the biggest impediments to growth is complying with the various state and federal regulations in place. While compliance with these regulations is critically necessary, I have found it particularly difficult to understand these sometime complex and convoluted regulations. As a small business owner, I am responsible for many items: financing the businesses, employing and managing a workforce, maintaining a profit, marketing my goods, staying on the cutting edge of the industry, etc. I am by no means an expert in state or federal regulations. Therefore, it is often difficult to comply with these various regulations, which affect everything from waste disposal to machine operation, in a manner that is consistent with running a profitable business.

Mr. Sweeney's bill, the National Small Business Regulatory Assistance Act, will establish a program to provide regulatory assistance to small business owners. This will allow small business owners, like me, to not only understand these complex regulations, but also will provide business advice to find the most efficient and effective way to comply to these various regulations. This is a win-win situation. Small businesses will receive guidance that will help them save money, and at the same time, government regulations and codes will be met.

Many times, when a small business is in violation of a certain regulation, it is not done intentionally. An owner may not fully understand a regulation or even know it exists. Like I mentioned, we have a lot on our plates. As a responsible small business owner, I want to work in compliance with regulations, but I do not want my business, American Trim Manufacturing, to suffocate under these regulations. In today's global marketplace competition for business is worldwide, and here in the United States the cost of regulation is a significant part of the equation for the small business owner. For small business owners to have a program they can call on for help, especially in situations regarding large Federal agencies, would be in my opinion invaluable. Mr. Sweeney's proposed program will allow me to seek this guidance proactively, so my business can flourish and will not face repercussions from government agencies down the road. If a business operates in violation of a regulation, it will only generate additional financial burdens on that company. The company must amend the violation and comply. This can

cause a tremendous financial burden on a business and could certainly be an impediment to growth.

If an owner receives consultation ahead of time, the business will operate in compliance with government regulations, allow the business to comply in a cost-effective manner, and will not subject the business to further financial burden down the road. It is programs like this that will only aid small businesses, like mine. This is the type of good-government program we need to support. I hope that my testimony will help this committee to pass bills such as Mr. Sweeney's bill, HR230, which will in turn give small businesses the support they need to ensure growth and a strengthened economy. Thank you for this opportunity to speak to you on this matter that is so close to my heart.

Sincerely,

Richard P. Gangi
President
American Trim Manufacturing, Inc.

Written Testimonial H.R. 2981 Sponsor: Rep Tom Udall

Udall bill seeking small business development aid for Indian country

Title: *To amend the Small business Act to expand and improve the assistance provided by Small Business Development Centers to Indian Tribe members, Native, Alaskans, and Native Hawaiians.*

Company: The Feasting Place
Owner.....Norma Naranjo, Phone: 505- 753-6767
Type of Business.....Service
Community.....Espanola, NM-San Juan Pueblo
Years in Business.....5
Year Started.....1999
Number of Employees: Full time 1 Part time 5
SBDC Center: Northern New Mexico College
Espanola, New Mexico



The Feasting Place “*Connecting Earth & Spirit*”

This Bill is of great importance to me and my native people, it means business assistance and education, and it means to be an independent successful entrepreneur through the assistance of the Small Business Development Center (SBDC).

I am from Northern New Mexico, home of Eight Northern Pueblos; I am a tribal member of San Juan Pueblo, the largest of the Pueblos. Prior to owning my own business I have served for our country while in the US Navy during the Vietnam War. After the Navy I was a commissioned officer while working for U.S. Public Health Corporation as a social worker where I retired from. I started catering successfully out of my home and focused on a unique business idea. Today I am a proud Native American Business Owner with the help of the Small Business Development Center in Espanola, New Mexico. While I have served our country, I ask you to help Indian Country by supporting Bill H.R. 2981.

This is my story of how the Small Business Development Center has helped me, and how the additional services targeted to provide business assistance to Native Americans will be beneficial not only to the native entrepreneur but to our community and our state.

I had a dream of opening my own business and the Small Business Development Center is my *dream catcher*, they helped me catch my dream, helped me develop, plan, market and educate me. I had no idea where to start or what to do, the guidance from the ground level up has been crucial for the success of my business. I feel that I can call at any time and they are there to help

me get through any hurdle I may be experiencing. The SBDC takes my hand and helps me step by step while giving me the encouragement and confidence it takes to run a business.

My business, **The Feasting Place “Connecting Earth & Spirit”** invites you to step into a unique dining experience flavored with more than a thousand years of history. My business brings people from across the globe together into my home located in San Juan Pueblo, NM and is a true, authentic pueblo cultural experience. The experience includes a traditional Native American Style Feast Meal and Horno-Baking Demonstrations. My customers also leave with baked goods, a memorable educational experience and new friendships. A group of 15 people from different places have sat at my kitchen table; they share their ways and cultures while eating at The Feasting Place. Together we connect our traditions and the spirit of my ancestors fill the room.

I wanted people to know about my home, my part of the country, how we live, our traditions, culture, our beliefs and the ways of my people. With respect to my elders, my grandparents and ancestors it is important to pass on this beautiful culture I grew up with. I wanted to work from home doing what I know best, cooking traditional feast meals, and horno-baking in my homemade outdoor adobe oven.

The Small Business Development Center not only helped me with the development of my business but Julianna Barbee the Director of the Espanola SBDC shared her marketing expertise and helped me with my promotional material which has given me global exposure at a very low cost. Julianna introduced me to another SBDC client, Theresa True who owns Ancient Story Teller Tours; a Native American owned business committed to educating visitors about Northern New Mexico and the history of the Pueblo people. Ancient Storytellers offers customized cultural tours to each Pueblo in Northern New Mexico. Some of the tours include my Pueblo Feast Meal and Horno- Baking Demonstrations, pottery demonstrations, drum demonstrations, storytelling, traditional dancing, traditional cooking, adobe making and restoration, Native American art shows, historical pueblo sites, and much more. Ancient Storyteller Tours participates in local, national and international trade shows such as the world travel markets in London, Italy and Germany. Several travel writers from England, Germany and New Zealand have written articles about the Pueblo tours and stories have appeared in several travel publications. The SBDC continues to help us work together which is helping to build both our businesses and marketing several other local native businesses on the international level, while growing the tourism economy and introducing the Eight Northern Pueblos, the Espanola Valley and Northern New Mexico to the world.” www.ancientstorytellers.com

The SBDC services are necessary and needed in our rural area, it would have been very difficult for me and many others to travel and pay for the services, the expertise and assistance is appreciated and valued. The one-on-one service, coaching, mentoring, training workshops and resource connections have helped me grow as an entrepreneur. The extra funding of this bill will allow the SBDC to expand and focus their resources in assisting Native Americans in their business initiatives. Because of the gaming in our area, other business opportunities are sprouting up and it’s important for our people to benefit from the SBDC and its services in order to open and grow sustainable businesses. The SBDC is truly helping to build New Mexico’s economy one business at a time.

My business is in demand and my calendar is booked. With the assistance of the Espanola Small Business Development Center (SBDC) my business has become profitable in a short period of time. The Feasting Place is currently being marketed to tourists through distribution

channels that are in contact with scheduling tours and events in the Northern New Mexico area. I hope to represent the best of Northern New Mexico hospitality.

I hope to be a role model for others to follow and educate the rest of the world that here in New Mexico our pueblo cuisines are now being accepted and featured as recipes that are thousands of years old. I am in the process of publishing a cook book and plan for it to be out by August. The Espanola SBDC is currently helping me with phase two of my business plan which includes the development of my website, marketing my cook book, and growing my business so I am able to hire more people that need work. I currently have one full time employee, and five part time employees.

In January 2002, I was recognized by the Espanola SBDC as their successful client of the year. I was recognized at the New Mexico State Legislature and the Governor's Office as one of New Mexico SBDC's successful clients during "NMSBDC Day at the Legislature." Along with 17 other 'successful SBDC clients' at a recognition ceremony held in the Capitol's Rotunda in Santa Fe, New Mexico. I have had a lot of publicity and recognition because of the NMSBDC event. I have been featured in several Newspapers and Magazines. I was on the cover of the Association of Small Business Development Centers (ASBDC) booklet last year at the New Orleans national conference. My story is on the SBA web page, under the New Mexico Success Client. I continue to receive calls and business because of this exposure. I have been contacted by "Gourmet Magazine." For a possible feature story on my business and recipes

This is my story and I am confident it will continue to grow and be successful through the help of the SBDC. Thank you for your consideration and support of this important bill.

With Respect,

Norma Naranjo

Norma Naranjo

An Invitation To You

I have been chosen to cater the reception for the Pope's unveiling that will take place in Washington DC on the evening of September 22, 2005 at the new National Indian Museum.

I invite you to come taste "Traditional Pueblo Cuisine". I look forward to meeting you, and again I thank you for your support.



The Wharton School
University of Pennsylvania
Vance Hall, 4th Floor
3733 Spruce Street
Philadelphia, PA 19104-6374
t: 215.898.1219
f: 215.573.2135
www.pasbdc.org

Statement

of

Christian Conroy

Associate State Director
Pennsylvania Small Business Development Centers

on

**H.R. 527: Vocational and Technical Entrepreneurship
Development Act of 2005**

before the

Committee on Small Business
United States House of Representatives

July 13, 2005

Chairman Manzullo, Ranking Member Velazquez, and members of the Committee, I am Christian Conroy, Associate State Director of the Pennsylvania Small Business Development Centers (SBDC). I would like to thank the Committee for inviting me to testify in support of H.R. 527, the Vocational and Technical Entrepreneurship Development Act of 2005, introduced by Congressman Brady, and cosponsored by members of this Committee including Congressman Shuster and Congressman Case.

Situation

The U.S. economy is dependent upon the initiation and growth of small businesses for its vitality. There are currently over 22 million small businesses in America, accounting for 99% of all U.S. businesses. Small firms are creating almost all the net new jobs in the economy and employ 53% of the private work force. The small business sector contributes over half of the nation's private gross domestic product, making small business the engine of economic growth.

To start a new, successful business, one must have sound business management skills. According to the Global Entrepreneurship Monitor, 10% of American adults are actively engaged in trying to start a business. The success of these new ventures is in jeopardy, however, because our educational institutions are doing little to teach essential skills to prepare students to participate in our entrepreneurial economy.

For the past 25 years, the Pennsylvania Small Business Development Centers have been helping entrepreneurs to start and grow successful businesses. During this period there have been many major changes that have affected small firms – increased access to capital; the development of sophisticated, inexpensive, and readily available management tools, such as spreadsheets, databases and financial management programs; the globalization of trade; and the advent of the Internet and access to vast new markets and data, to name just a few. However, one thing has remained constant: prospective entrepreneurs lack relevant educational experience on how to start and operate a profitable business.

What we continue to see on a daily basis in the Small Business Development Center program are many people who have technical skills and an entrepreneurial disposition, but no formal training to prepare them to start and grow a business. Eighty percent (80%) of the people who come to our centers have not owned or operated a business before and do not have the educational background to prepare them to start and operate a business. As a result, too many small businesses fail because the entrepreneurs starting them have not had any formal training on what is involved in operating a profitable company.

If you consider the courses of study offered in our principal technical educational systems – high schools, community colleges, and vocational schools – the lack of preparation should not come as a surprise. With

few exceptions, these institutions do not offer a comprehensive, coherent course of study to prepare students to become competent business owners and managers. This is not to say that no relevant courses are offered. But, to quote the authors of the "*E*" *Generation*, a study by Kourilsky and Walstad assessing the readiness of today's youth for an entrepreneurial economy:

"The piecemeal approach of today's high school curriculum in areas related to the entrepreneurial process has contributed significantly to the poor quality and incompleteness of high school level entrepreneurship education," and "... the course taking situation appears not to be any better at the undergraduate level."

So what we have is an economy dependent upon the initiation and growth of small business for its vitality, and a set of educational institutions doing little to prepare students to participate in that entrepreneurial economy.

The Vocational and Technical Entrepreneurship Development Act of 2005 provides an effective approach to addressing this situation.

Opportunity

Our vocational and technical schools represent a substantial public investment in education and annually turn out thousands of individuals who have excellent technical skills. According to the U.S. Department of Education:

"Career and technical education, commonly known as vocational education, is a massive enterprise in the U.S. Thousands of comprehensive high schools, vocational and technical high schools, area vocational centers, and community colleges offer vocational education programs. Virtually every high school student takes at least one vocational education course, and one in four students takes three or more courses in a single program area. One-third of college students are involved in vocational programs, and as many as 40 million adults engage in short-term postsecondary occupational training."

However, while students are learning a skill or trade, they are not being trained on how to be small business owners. The indicators used to assess vocational educational success focus on students' pursuit of post-secondary education and obtaining employment. They do not include any measures of being a business owner, of *being an employer*.

By providing entrepreneurial knowledge at the same time that students are learning a trade or skill, career opportunities are expanded. Students not only become more employable, but many of the graduates of these programs will eventually gravitate toward business ownership.

Currently, when graduates of vocational programs decide to make the move to self-employment, they will generally find that acquiring or starting and managing a firm requires a very different set of skills than those they acquired through training at vocational school. Many attempting to make this transition are ill prepared and too many fail. There is no reason for many of these students to fail as entrepreneurs when we have resources that can help them succeed.

SBDC Impact

I assert that the best resource available to prospective entrepreneurs nationwide who are interested in starting a new business is the Small Business Development Center program. The SBDC program has an established, national infrastructure; a staff of experts skilled in teaching how to open a business; experience in helping clients obtain start-up capital; access to resources from some of the best universities and colleges in the nation; and strong relationships with various other economic development programs and trade associations.

We in the SBDCs provide potential entrepreneurs with the information and sets of skills required to start and grow successful businesses. I can make that statement because we have been careful to evaluate the effect of our consulting on entrepreneurs.

Starting a business is relatively easy, compared to staying in business and growing that business in a competitive environment. Independent research studies have consistently shown that entrepreneurs who start businesses with help from the Small Business Development Centers survive and grow at a rate far in excess of other businesses. In fact, as a result of working with an SBDC, a significantly larger percentage of our clients achieve “gazelle” rate growth (high-growth as defined by noted researcher David Birch) than found in the general population of business start-ups. The results of the most recent impact study of Pennsylvania SBDC-assisted start-up clients are dramatic:

Start-Up

Every 3 hours and 19 minutes a new business is opened in Pennsylvania with help from an SBDC.

Survival

Eighty percent (80%) of SBDC start-up clients are still in business eight years after receiving assistance from the Pennsylvania SBDCs. This is a survival rate approximately 35% higher than the survival rate of the general population of new businesses in the U.S.

Growth

New businesses started with SBDC assistance sold \$494 million worth of goods and services in their first year and created 5,938 new jobs. This resulted in \$20,272,432 in *new* federal tax revenue.

Demand Pressure

While I trust you will agree this record of impact is impressive, our resources are such that we cannot expect to meet the demand for start-up assistance. Currently, the SBDCs are operating at capacity and are only able to assist a tiny fraction of the population of prospective entrepreneurs. Thus, if the SBDCs are to serve a greater number of these potential entrepreneurs, we must transfer our knowledge of the entrepreneurial process to those educational systems having the capacity to reach and to educate a much larger segment of the population than can currently be served by the SBDCs.

The vocational education system was chosen as a starting point because it is a system that is market-driven and through which a significant number of potential entrepreneurs pass. Yet, with some isolated exceptions, very few vocational and technical schools currently provide any cohesive curricula on small business management. Furthermore, there are no programs being offered at vocational and technical schools that are based upon 25 years of experience in educating entrepreneurs that have been rigorously evaluated and can demonstrate as significant a level of impact as the programming provided by the Small Business Development Centers.

The vocational education system also was chosen based on the SBDC's past relationships with these institutions. Over the years, several vocational schools have approached SBDCs to involve our centers in their courses. For example:

- The Kutztown University SBDC has a very strong partnership with the Thaddeus Stevens College of Technology, a post-secondary technical school in Lancaster, Pennsylvania. Every two months, the SBDC offers its four-week Business Planning for Success course at the school, and approximately 100 students each year take the course. As the center operates an outreach office directly in the school, SBDC staff are frequently asked to speak during Stevens classes. The outreach office at the school also enables students who are considering starting their own business an opportunity to work one-on-one with an SBDC consultant to further explore their business dreams.
- In northeast Pennsylvania, the University of Scranton SBDC is frequently sought out by teachers from schools such as Johnson Technical College, North Hampton Community College and the McCann School of Business and Technology, to speak to students about the option of self-

employment. During their time in the classroom, SBDC staff not only discuss what is involved in starting a business, but they also tailor their programs to provide specific information, trends and demographics particular to the industry the students are studying.

While these two examples demonstrate how a partnership between the SBDCs and vocational schools can be valuable, it is important to note that these joint programs *are not* occurring as part of a systematic, formal program. The SBDCs in these two examples squeeze in these limited services to vocational schools as part of their overall service delivery to their communities. Several of our other centers in Pennsylvania are not as involved with vocational schools in their service regions because they simply do not have the resources to engage in this activity in addition to providing their normal portfolio of consulting, education and information services. Because of resource constraints, the SBDCs are not able to provide in-depth, ongoing educational or consulting services as part of the curriculum taught at these and other vocational schools. Nor do the SBDCs have the resources to provide training to vocational school teachers on how to incorporate small business management topics into their course curriculum.

HR 527

H.R. 527 will provide competitive grant funding to the SBDCs to adapt their proven business management training programs to develop a cohesive curriculum on starting and operating a successful business, which can be provided to students in selected vocational schools throughout the nation. The training will focus on the essential business operational areas such as management, marketing and finance. Additionally, the programs will be modified to provide information that is relevant to the particular industry sectors in which students are learning skills.

As is standard in the SBDC program, metrics will be developed to measure the outputs, outcomes and impact of this program on an annual basis. Based upon the results of these findings, refinements will be made to ensure the program achieves a high level of impact. Furthermore, the bill calls for establishing a clearinghouse of information and expertise regarding vocational entrepreneurship programs that can be used by all SBDCs across the country.

In order to reach as many students as possible, the SBDCs will modify their training programs for application within vocational schools and will then train teachers on how to deliver the information to students in vocational schools. The SBDCs will not conduct the training of students, but rather will train teachers on how to deliver training on starting and operating a successful business. Thus, far more

students will benefit from this training than if the SBDCs used their limited resources to conduct the training.

Benefits

The primary benefit of this bill is that students graduating from our vocational and technical schools will not only be skilled in a particular trade, but also will be armed with the knowledge and tools relevant to building a successful business in their field. As a result, you will see more trades-people start, operate and grow successful new businesses across the country.

The second benefit accrues to employers of individuals who have gone through this training. Whether or not a person starts a business, the knowledge of such key aspects of operating a business, such as customer relations, controlling costs, and how money is made, creates a more effective employee.

A third benefit of this pilot program is that, once we demonstrate the value of this type of training in the context of one set of educational institutions, it will, we believe, be easier to transfer these processes to additional vocational schools and to other educational systems, such as high schools, community colleges, and colleges and universities.

This bill represents an excellent vehicle to combine the resources of two well established, proven programs to begin to make entrepreneurial education available to a larger pool of prospective business owners, if provided the resources to do so by Congress. Our economy and our communities depend on it. I urge the Committee's approval of this bill.

Statement by Erica Kauten

State Director, Wisconsin Small Business Development Center (SBDC)

For the House Committee on Small Business Hearing

“Small Business Development Centers: New Offerings for a New Economy”

July 13, 2005

Chairman Manzullo, Ranking Member Velazquez and members of the House Small Business Committee, thank you for inviting me to testify at today’s hearing. I am Erica Kauten, State Director of the Wisconsin Small Business Development Center (SBDC) at the University of Wisconsin-Extension.

I am pleased to testify today in support of legislation introduced by Congressman Fitzpatrick to create a four-year pilot program to coordinate peer learning opportunities for second-stage small businesses. This is one of the most exciting and cost-effective strategies I know to create jobs and promote entrepreneurship.

The Wisconsin SBDC is part of America’s Small Business Development Center Network, and a member of the Association of Small Business Development Centers, which includes every SBDC grantee in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa.

The Wisconsin SBDC includes 13 full-time centers plus the Wisconsin Innovation Service Center (WISC) at the University of Wisconsin-Whitewater, the Center for Advanced Technology and Innovation at UW-Parkside and the Center for Innovation and Development at UW-Stout – as well as a State Administrative Office at UW-Extension, Madison – making it the largest provider of entrepreneurial services in the state.

As one of the first in the nation, the Wisconsin SBDC has operated continuously since its inception in 1979. With the University of Wisconsin-Extension as its host institution, the SBDC now operates with a broad base of partner support. This includes the U.S. Small Business Administration (SBA), 13 UW campuses, the Wisconsin Department of Commerce, the Wisconsin Technical College System, SCORE, Wisconsin Women’s Centers, community based organizations and many other local and statewide partners.

As director of the first and only public peer networking program in the United States, I am extremely proud of what Wisconsin’s PeerSpectives Network has been able to accomplish in just one year of operation.

Today, I’d like you to keep in mind five things:

- Second-stage businesses have high growth potential. Over the next 10 years and beyond, these entrepreneurial leaders will be one of the most significant sources of new jobs and economic vitality in the United States.

- Second-stage business owners function uniquely. Somewhere between start-ups and large corporations, they need education that works for them. Currently, the public sector is not meeting this need.
- Peer networking in the private sector has been partially successful, but it's too costly for many second-stage entrepreneurs. Partly because of cost and partly because of geography, private sector peer networking fails when it comes to rural and other underserved areas.
- Wisconsin's public program for peer networking for second-stage businesses, PeerSpectives Roundtables™, is cost-effective. We expect that the program will fare as well as other SBDC programs, returning more in tax dollars than they cost to support.
- The network in Wisconsin has been well-received. In an ongoing survey of PeerSpectives participants, 71 percent of the 24 who have responded so far said the experience resulted in a more satisfying business life. Among the comments was one business owner who said, "The experience exchange of the roundtable influenced my business relocation decision in a way that could save my company in excess of \$1 million." After one year, PeerSpectives is already a proven success and worth replicating in other states.

First, let me tell you a little bit about second-stage entrepreneurs. Some call them "gazelles" because of their powerful potential. These high-growth firms play a distinct role in the nation's economy, and they are found in a variety of industries, not just high-tech and bio-tech.

Examples include:

- Urban Processing, a thriving company that produces sweetened dried cranberries in Wisconsin Rapids
- Lucigen Corporation, a Middleton company focused on ultra-high efficiency gene cloning technology.
- Norris & Associates, Inc., a minority-owned business in Milwaukee that provides hydrologic and hydraulic analysis, storm water management, and GIS mapping, among other services, and
- Cyber Defense Agency, a Wisconsin Rapids company designed to improve IT security in both the government and commercial sectors.

There are many ways to define a high-growth firm, depending on the life-cycle stage of the firm. Scholarly literature agrees that businesses move through various and common stages of growth or business development but cannot agree on a universal set or sequence of stages that works for all industries or business types.

Second stagers by their very nature believe their company is unique and does not easily fit into specific growth cycles or business development categories.

The Edward Lowe Foundation has helped develop a definition for second-stage entrepreneurs: they have between six and 99 employees or between \$750,000 and \$18 million in gross annual sales or working capital. They've experienced growth of at least 15 percent in their workforce or revenues during the past two years, and faced obstacles to growth but have the intent and capacity for substantial growth and job creation.

The Foundation based the model in large part on the work of Eric Flamholtz and Yvonne Randle and their 2000 book, "Growing Pains - Transforming From Entrepreneurship To A Professionally Managed Firm."

Flamholtz, a UCLA management professor, and Randle, a Management Systems Consultant, identified seven stages of organizational growth. The first four stages deal with a new venture through organizational maturity. Stages 5 through 7 deal with the period of a company's life cycle after the attainment of organizational maturity. Stage two in Flamholtz's model involves the rapid expansion of the firm in terms of revenue and number of employees.

The foundation reviewed the existing literature and conducted focus groups with growth-oriented entrepreneurs in an attempt to define entrepreneurship and categorize the next level of business development. Then the foundation adjusted the PeerSpectives roundtable process to best support entrepreneurs, train facilitators, and provide program support materials.

Edward Lowe, a highly dedicated entrepreneur who made a fortune as inventor of Kitty Litter, and his wife, Darlene, who is also an experienced entrepreneur, created the Foundation. It is one of the leading non profit organizations dedicated to supporting entrepreneurs whose companies are uniquely poised for extensive growth.

The Foundation found that entrepreneurs themselves had difficulty in defining entrepreneurship and overwhelmingly responded favorably to the concept of a simple classification as second stage.

Criteria like revenue and employee size are accurate and verifiable measures (using census data) that can be used to determine the universe of second stage companies in a state or region. But applying additional criteria to identify high growth or high growth potential companies narrows the field significantly and represents the number of companies that should be targeted for peer learning and the second stage business development bill.

The one figure scholarly literature seems to agree on is that 3-5 percent of all companies grow at extraordinary speed. They are more narrowly defined in existing literature as companies growing by 20 percent per year or doubling every five years in both revenue and employee size. Applying that reasoning, the foundation estimates that 5 percent of all second-stage companies have the intent and capacity to grow and are likely already experiencing that growth.

Another 10 percent of second-stage companies have the potential for high growth and should be nurtured and encouraged to participate in peer learning programs. This is the area that needs to be expanded and better defined so that we can find the companies exhibiting the traits and performance that indicate they will join or follow the gazelles through the second stage of business development.

By keeping the categories simple, states and regions can use existing data about revenue and employee size to determine the universe of second-stage companies as well as the companies currently experiencing high growth, and apply more specific criteria through the local selection process to determine the potential for high growth. The result is that 15 percent of all second-stage companies represent the companies targeted for the peer learning program.

Peer learning, in the broadest terms, simply means learning from others who share similar responsibilities, goals, problems and opportunities. In the context of PeerSpectives™ Roundtables, peer learning means gaining knowledge and insight through interaction with other second-stage business owners, CEOs and presidents. As they gain experience in operating a growing company, many entrepreneurs discover the value of such interaction: the opportunity to share experiences, to solve problems, to think through opportunities and to give—and accept—a special kind of support they can find nowhere else.

The best peer-learning interactions occur not as chance meetings at social events or over occasional breakfasts or lunches, but as part of a regular, ongoing, facilitated process of interaction among participants in peer-learning roundtables. The most effective groups follow a protocol that enables each member and the group to make the most productive use of their time and to get information and insight when and how they need it.

By gathering in small groups in a roundtable setting, entrepreneurs receive several benefits from each other: relevant knowledge and experience, objective input, accelerated learning and the perspective needed for better decision-making. As a result, they make emotional and intellectual breakthroughs that enable them to become better leaders, strategists, decision-makers and problem solvers.

Historically, many entrepreneurs with growing businesses have used similar networks of their peers to advise, support and help them take their companies to the next level. Peer networking in the private sector has been successful, but it's too costly for many second-stage entrepreneurs. Partly because of cost and partly because of geography, private sector peer networking fails when it comes to rural and other underserved areas.

For example, in the past few years, two highly recognized private peer-networking firms tried to market their roundtables in less populated areas such as Wisconsin Rapids. The companies spent more than \$40,000 in marketing efforts, yet were unsuccessful in putting together a group of even 10 people.

But the SBDC, with its long history in the community and its ability to target appropriate firms for this kind of program, has been able to accomplish what the private sector was not. We've drawn together enough second-stage non-competing individuals to form three successful groups: one each in Wausau, Wisconsin Rapids and Stevens Point.

The variety of businesses represented in the program is startling. In one Madison network, there is a pet clinic, a self-storage company, a group of architects and a handful of biotechs. In another, a plant nursery owner sits down regularly with a funeral home director, a food wholesaler and a cheese salesman.

Sue Kaestner, for example, employs six people in her Middleton promotional product marketing company, The Widget Source. "At the roundtable, you have a group of people who have all basically been in your shoes, faced with very similar business situations," she says. "But, instead of one person trying to analyze the situation all by herself, you bring it before the group and all of a sudden you have 10 examples. They either confirm your gut or you are educated on a totally new area of your business."

The roundtable protocol encourages business owners to reveal their own stories instead of offering direction or criticism. "Typically peoples' gut is what needs to be validated," Kaestner says.

The Wisconsin PeerSpectives Network™ began in the summer of 2004. In the summer of 2003, the Edward Lowe Foundation invited the UW-Extension Small Business Development Center and statewide partners to hold a statewide strategic planning session at their headquarters facility in Cassopolis, Michigan. The planning session was attended by representatives of the Wisconsin Technical College System, Wisconsin Department of Commerce, Wisconsin Department of Agriculture, UW-Madison Office of Corporate Relations, several UW Engineering Colleges, University of Wisconsin Extension, Small Business Development Centers and representatives from private businesses.

This two-day event provided participants with the opportunity to look at ways these organizations could collaborate and improve the entrepreneurial environment in Wisconsin. Among the several significant outcomes of this meeting was an agreement to develop a formal peer-to-peer learning network, now called Wisconsin PeerSpectives™Network: Peer-to-Peer Learning for Entrepreneurs. The Foundation and the SBDC are working on a roadmap that could be scaled statewide and include other organizations this year and next. Ultimately, the Edward Lowe Foundation may develop a consortium of SBDCs nationwide and create a peer-learning network and resource base that will support the growth of thousands of second-stage firms. To begin the process, the Edward Lowe Foundation agreed to seed the Wisconsin project.

The roundtables provide a valuable opportunity for owners, CEOs and presidents to tap into the collective wisdom of their peers on topics such as finance, employee relations, legal compliance, marketing and advertising, accessing new markets, production, and personal isolation. The group members are committed to confidentiality, sharing, accountability, and dispassionate analysis.

The peer groups are composed of eight to 12 non-competing business owners who gather for confidential sharing of experiences and challenges approximately 10 times over a 12-month period. The peer-to-peer exchanges enhance the decision-making processes, critical for owners who want to improve their already established companies.

Each Wisconsin PeerSpectives Network roundtable is led by a facilitator trained by the Foundation.

The network is most effective for qualified owners, CEOs, and presidents of growth-oriented Second-Stage™ companies. In general, we consider a company is second-stage if it is privately held, past the start-up stage, facing issues of growth rather than survival, transitioning from an entrepreneurial to a professional management style, and generating between \$750,000 and \$50 million in annual revenue or has that range of working capital in place. A total of 103 firms are participating in year one.

Full tuition is \$1,500 for 12 months. The Governor's PeerSpective Scholarship Program provides 75 percent of the cost of the first year of tuition. Scholarships are awarded to CEOs or owners when they are selected for first-year participation. Entrepreneurs are expected to cover the full cost of their participation in subsequent years.

The \$1,500 annual price was established following a comprehensive examination of existing Wisconsin peer-learning networks. Costs to participate in those private sector programs range from about \$3,000 a year to more than \$7,500, depending on the group.

Dr. David Mead, founder of Lucigen Corporation in Middleton, says PeerSpectives is a great program for helping business leaders deal with issues in a nonjudgmental way. "The round table setting gives you insight into other situations and approaches that you would never otherwise experience," Mead says. "It has helped me to broaden my perspective and concentrate on problem solving in a more professional manner."

The roundtable is not intended to be a leads group, a meeting designed for members to do business with each other, a coffee club with casual, social conversation, or a "fix-it" or therapy group.

Participation in the roundtables also gives business owners access to PeerNet™, an online network database that contains contact information and areas of expertise of participants who are willing to make their expertise available to others in the network via phone and/or email.

They also have access to online resources for entrepreneurs at www.lowe.org.

In closing, I believe this strategic approach marries the strengths of second-stage, high-growth businesses with the capabilities of Wisconsin's academic institutions and partner agencies and organizations.

The Wisconsin Department of Commerce, the University of Wisconsin - Extension, the Wisconsin Technical College System, the Wisconsin Women's Business Initiative Corporation and other small business organizations are collaborating in a unique way that more closely aligns the state's business development strengths with second-stage company needs.

As I said when I began, this legislation is an important step for high-growth companies with issues that differ distinctly from those of start-ups on one end and mature corporations on the other. There may be many ways to define a high-growth firm, but most people agree that this is where the magic happens for Wisconsin's economy – and for the nation's economic health. These business owners need the chance to learn from one another in a cost-effective program designed uniquely for them.

Let me again thank you, Chairman Manzullo, Ranking Member Velazquez and members of the Committee, for inviting me to testify. I appreciate your interest in this strategy to nurture businesses in this crucial second-stage of development. I'd be glad to respond to any questions the Committee may have, and I'd be pleased to try and provide any additional information the Committee may require.

**Testimony to the Congress of the United States, House of Representatives,
109th Congress, Committee on Small Business: The Small Business
Development Center (SBDC) Program in the United States**

prepared by:

James J. Chrisman, Ph.D.
Professor of Management
Mississippi State University
Mississippi State, MS 39762-9581
662-325-1991
jchrisman@cobilan.msstate.edu

The purpose of this document is to provide my testimony on the performance of the Small Business Development Center (SBDC) in fostering economic development in the United States.¹ This testimony is based on my studies of the economic impact of the program dating back to 1982 when I conducted the first analysis of the program, which was presented by Dr. William C. Flewellen, Jr. to the Committee on Small Business, United States Senate, 98th Congress, on February 8, 1983. Following this and various isolated analyses of state SBDC programs conducted in the 1980s, I was contracted to conduct research on the economic impact of the national program for the Association of SBDCs in 1992. I am currently working on the ninth such study this year. In addition, I have conducted approximately 240 economic impact studies of state SBDC programs, as well as a number of sub-center analyses and longitudinal studies. These studies have analyzed, at one time or another, 50 of the 62 existing programs. Finally, I have also published 24 academic articles in refereed journals from my research on the SBDC program, 10 of which have appeared in the top two outlets in the entrepreneurship

¹ It should be noted that I am testifying on my own behalf as a private citizen at the invitation of the Chairman of the Committee on Small Business, Donald A. Manzullo. I have not received any federal grants, contracts, or subcontracts in the last two years. However, in the interests of full disclosure it should be noted that I have been retained as a paid independent contractor to conduct national impact studies for the Association of Small Business Development Centers. I have also been retained as a paid independent contractor to conduct studies by various state SBDC programs. A list of these is included in the resume of my SBDC work, which has been submitted to the Committee. The results of this work form the basis for the majority of my testimony.

discipline. For further information on my qualifications and experience in working with the SBDC program, I refer the reader to my SBDC resume, which I am submitting as evidence of my ability to provide expert testimony on the program.

Based on these studies, my overall conclusion is that the SBDC program in the United States has a significant, positive impact on economic development, as measured by job creation, GDP growth, and, ultimately tax revenues generated. Put differently, through the increases in jobs and sales revenues of client firms, the program provides other societal benefits because it returns more in tax dollars to the nation than it costs to operate the program. Furthermore, the evidence I have accumulated suggests that the businesses and jobs created and sales generated are sustainable over time. In other words, although the program has a substantial short-term impact, my research suggests that this impact is not transitory in nature.

Before providing some of the details of my studies that highlight these contributions, I would like to digress briefly in order to explain why and how the SBDC program is able to, through its clients, generate such a substantial and positive economic impact. Although some of this may seem obvious, I believe it is very important to explain the theoretical basis for the documented empirical evidence of the program's success. This is because without an explanation of the cause it is difficult to determine if the effect is real, rather than a spurious statistical artifact of methodology.

As you are probably aware, the mission of the SBDC program is to provide free assistance to all small business owners/managers and aspiring entrepreneurs who ask for help on a variety of different business issues. The most frequent form of assistance is the development of a business plan. Thus, besides serving as a source of general information and consulting, the services of the SBDC are provided in a manner that instills learning and a deeper understanding of the issues and processes involved in developing strategies, administrative structures, and

operating policies. As a result, the SBDC's brand of counseling helps transfer explicit knowledge about best business practices. More importantly, because clients are often required to perform a large portion of the actual work themselves (as a rule-of-thumb clients spend about 2-4 hours working on their business problems for every hour of counseling received), with the SBDC counselor acting in the role of mentor and advisor, a great deal of tacit knowledge is also gained. This experiential "learning by doing" knowledge is particularly valuable for two reasons. First, it better enables clients, following the counseling engagement, to diagnose, analysis, and solve problems effectively. The knowledge developed through the SBDC's interventions also often allows clients to expand their networks of relationships, building "know-who" as well as "know-how" in the course of the engagement. Second, because tacit knowledge, in combination with explicit knowledge, is difficult to copy or transfer, it can potentially help small business and entrepreneurial clients create a competitive advantage. A competitive advantage is valuable because its possession fosters survival, growth, and sustainable economic profits. Consequently, clients of the SBDC program are more "fit" to contribute to the economic growth and development of the United States because the assistance received engenders learning, as well as information.

Turning now to specific findings of my studies I will start with a brief synopsis of the most recent national impact study conducted for the Association of Small Business Development Centers. In 2004 I conducted a study of the estimated 60,917 clients who received "long-term" (5 or more contact hours) from the SBDC program in 2002. I analyzed the improvements in performance of these clients between 2002 and 2003, making adjustments for growth rates among all businesses in their states and their perceptions of the quality of the services. Responses were received from 9,436 clients, a 15.5% response rate. Tests were conducted to ensure that the respondents were representative of the population, that there were no systematic biases in the

data, and that the responses were reliable. Based on my findings, I estimated that the SBDC's long-term clients created over 56,000 new jobs and more than \$5.9 billion in incremental sales revenues. In addition, clients indicated that approximately \$7.0 billion in sales and 59,000 jobs were saved because of the interventions. Translated into sales and income taxes, I estimated that these improvements generated approximately \$475 million in tax revenues for federal and state governments. This tax revenue exceeded the contributions of federal and state governments toward the operation of the program by a ratio of 2.48 to 1.00. In addition, the cost of creating each new job was slight over \$3,400 per job. Furthermore, it should be noted that the comparisons of tax revenues generated to those expended, and the cost per job estimates, do not include estimates of jobs or sales saved through the turnaround efforts sparked by the SBDC program. Finally, clients raised nearly \$2 billion in debt and equity capital with the assistance of the SBDC program. This was more than 10 times the \$191 million spent to operate the program.

Several additional points about these findings should be noted. First, these numbers are extremely consistent with the findings from each of my other studies of the national program over the years. Second, my state-by-state analyses suggests that the SBDC program is effective in all regions of the United States; clients in the north, south, east, west, and midwest all appear to gain from SBDC counseling (albeit the results are not necessarily uniform by state). Third, my analyses indicate that the value of the program is not limited to any particular industry sector. Indeed, the special analysis of manufacturing clients conducted last year indicates that even small and new businesses in industries experiencing the challenges of global competition can benefit from the SBDC's services. Finally, these results do not necessarily capture all of the benefits of the program. For example, my analyses do not measure increases in social security payments. Additionally, these analyses do not begin to tap the very real and significant benefits

to clients and society of discouraging would-be entrepreneurs who are unfit for the rigors of business to take the plunge.

Here I would like to provide an example, based on my own experience, of the magnitude of this unmeasured impact. In the early 1980s while a PhD student at the University of Georgia I served as a staff counselor and researcher for the Georgia SBDC program. During my tenure I was assigned to work for a not-for-profit organization that had been quite successful preparing a series of books on mountain crafts. That organization was contemplating printing and marketing the books independently rather than going through an established publisher, and had been promised a \$5 million government grant to do so. Based on the detailed feasibility and financial analysis conducted, I determined that they would not reach a position of positive cash flow until the fifth year of operation, by which time they would have used the entire \$5 million grant and needed another \$3 million to survive. To put it more directly, the work conducted for these clients saved the government \$5 million. Although this is obviously an extreme example, I hope it does serve to illustrate the enormous uncounted benefits that timely interventions can make.

As noted above, aside from the numerous studies conducted for the SBDC program, I have also performed additional research using the data obtained from those studies and those studies, as well as some of my basic impact studies, have been published in leading academic journals. In those studies I have determined the following: (1) the SBDC is equally valuable for minorities and women as it is for whites and men, (2) SBDC counseling is most valuable when it includes a blend of strategic, administrative, and operating assistance, (3) start-up and survival rates of SBDC-counseled businesses are significantly higher than start-up and survival rates reported in comparable studies of the general population in the United States. Most importantly, my most recent studies of the longitudinal impacts of the program show conclusively that there is a significant, positive relationship between the amounts of counseling received by aspiring

entrepreneurs and the subsequent survival and growth (measured in terms of both sales revenues and employment) of their businesses four to eight years after receiving the assistance. These relationships hold even after controlling for factors such as previous start-up experience, management experience, industry experience, general education, business education, entrepreneurial education, geographic scope, ethnicity, gender, type of business, and the interventions of other agencies. As suggested above, the reasons for these findings can, I think, be directly attributed to the confluence of tacit and explicit knowledge clients gain through the advice and mentoring of counselors, combined with the hard work of the clients themselves, which serve to ingrain that knowledge for immediate and future use.

In conclusion, based on a body of work that spans my entire academic career of more than 20 years, I feel entirely confident in stating that the SBDC program is an outstanding investment in terms of the benefits obtained by its small business and entrepreneurial clients and its consequent impact on the prosperity of the citizens of the United States. Furthermore, it is a sound "business" investment as the accumulated evidence suggests that it generates more tax revenues for the government than is expended to operate the program. As a final note, although I believe I have been responsible for the vast majority of studies on this program, there have been studies conducted by other scholars and other organizations (e.g., Dun & Bradstreet) using similar and disparate methodologies. However, I am unaware of a single study that offers conflicting evidence to what I have presented in this testimony.

Thank you for allowing me the opportunity to contribute to your deliberations. I remain at your service.