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## **SMALL BUSINESS DEVELOPMENT CENTERS — A University Economic Development Tradition**

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Owners of small and medium-sized businesses have complained for many years about the serious imbalance in regional, state, and local economic-development programs. An inordinate preponderance of economic-development energy, expertise, and resources has been traditionally directed toward business-attraction efforts, at the expense of business-retention programs. The intense competition between regions and states to attract one of a select few major industrial employers to a particular area has become a major zero-sum game. This "smoke-stack-chasing" strategy all but ignores the reality that the overwhelming majority of new job creation in this country occurs, and has consistently occurred over the last twenty-five to thirty years in the small business sector.

Universities have long been featured as a prominent premium in regional/state business-attraction incentive packages. The degree of concentration of academic excellence in a region has always been a major quality-of-life consideration in plant location and/or relocation decisions. Access to state-of-the-art, university-based research expertise and facilities provides even greater direct benefits for firms in highly favored emerging-technology-based industries.

A review of the promotional materials for some of the nation's most successful development clusters substantiates the attraction value of world class universities. Literature promoting Silicon Valley is replete with references to the academic and research excellence of Stanford University and California State University at Berkeley. North Carolina's Research Triangle promotes its immediate access to Duke, the University of North Carolina, and specialized emerging-technology research facilities and projects at Wake Forest and North Carolina State. Universities that have been highlighted recently as significant influences in the attraction of business to a city or region are Harvard, the Massachusetts Institute of Technology, the University of Pennsylvania, Columbia, Carnegie-Mellon, John Hopkins, Arizona State, the University of Texas, and Georgia Tech. A specific recent example receiving significant media attention is Virginia's "big

win" in persuading Motorola to locate a \$3-billion plant on the outskirts of its capital city, Richmond.

The Mideastern Atlantic region is one of the most intensely competitive state-versus-state business-attraction regions in the country. Maryland, Virginia, North Carolina, Pennsylvania, South Carolina, and even Delaware all have sizeable business attraction "war chests." Most of the esoterically labeled funds (in Maryland it's the "Sunny Day Fund") are maintained at the ready disposal of the governor's office for immediate and flexible response to business attraction opportunities. Major business attraction/retention "wins" and/or "losses" become larger-than-life, statewide political-campaign issues throughout the region. To reel in Motorola, Virginia agreed to spend \$11 million on a new engineering/research complex, and endow \$5 million of engineering professorships at other public Virginia colleges. Flush with the success of the Motorola deal, the state recently committed to an additional \$14 million of faculty endowments to attract two additional high-technology manufacturing plants. The three plants are projected to create 10,000 new jobs.

Over the last two to three years, a number of factors have resulted in an increased emphasis on business retention by regional/state economic-development offices. Ironically, the need to defend one's region from the increasingly aggressive business attraction forays of other regions is one of the primary factors. Other possible forces include:

- general economic prosperity, which may have swelled state economic-development coffers to the extent that they can now afford to fund efforts in business attraction and business retention
- relatively stagnant employment trends in the major industrial sector
- increased scrutiny of the total economic costs of some of the major attraction "wins" (environmental, infrastructure, social service, public safety)

Another important factor may be increased attention of economic developers to the impact of new venture creation and the growth of existing resident businesses as critical elements of a successful retention strategy. Consistent with this shift in economic development priorities, entrepreneurship and new venture development and support programs are proliferating at many universities. And, while much of the literature chronicles the importance of these exciting new initiatives, universities have been materially engaged in business development and support programs for a number of years.

The Small Business Development Center Program, America's national small-business delivery system, was launched as a pilot program at nine universities in 1977. Modeled after the highly successful Agriculture Extension Program established in 1914, the Small Business Development Center Program was funded by the U.S. Small Business Administration to meet the needs of small business. Initially called the University Business Development Center Program, the pilot included nine universities — University of Georgia,

California State Polytechnic University, the University of Southern Maine, the University of Missouri, the University of Nebraska at Omaha, Rutgers University, the University of West Florida, and Howard University. In July 1980, Public Law 96-302 — the Small Business Development Center Act — established the national SBDC Program, and in 1990 the sunset provision was removed, making the SBDC a permanent program.

Since 1980 the program has grown from ten SBDCs with an annual \$4-million budget to fifty-seven state/regional SBDCs operating more than 970 client service locations in every state, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands. The annual FY96 program budget was \$73.5 million. The lead host institution for forty-six of the fifty-seven state/regional SBDCs is a college or university. Additionally, a number of the state based programs operate university-or community-college-based sub-centers. In FY96 Small Business Development Centers counseled 237,100 clients (see Table One) and conducted training for 333,513 clients. Information and referral services for contacts not registered as clients expand total FY96 SBDC contacts to well over 1.5 million. Counseling clients by type of business were as follows:

TABLE ONE

| Counseling Clients by Type of Business   |     |
|--|-----|
| Construction                             | 5%  |
| Retail                                   | 24% |
| Manufacturing                            | 13% |
| Wholesale                                | 6%  |
| Service                                  | 40% |
| Counseling Clients by Area of Counseling |     |
| Procurement                              | 7%  |
| Accounting/Record keeping                | 6%  |
| Financial Analysis/Cost Control          | 9%  |
| Business Start-Up                        | 69% |
| Capital Sources                          | 28% |
| Marketing/Sales                          | 22% |
| All Other                                | 14% |

SBDC training topics cover all aspects of business planning, finance, marketing, accounting and record-keeping, personnel, marketing and sales, operations, strategic planning and continuous improvement, regulatory compliance; business start-up; and expansion. In addition to free one-on-one counseling and educational workshops/conferences, SBDCs also provide business and economic research, business libraries and electronic-information centers, and business and economic policy analysis. SBDCs are staffed by experienced business professionals, economic development specialists, retired executives, and other non-faculty personnel, supplemented by attorneys, engineers, accountants, and an array of private business consultants. Most SBDCs are closely aligned with or housed in the university business schools and have federal mandates to avail themselves of faculty and student expertise.

Many SBDCs operate specialty centers and/or provide specialized assistance in international trade, regulatory compliance,

technology transfer, public- and private-sector procurement, product and process innovation, continuous quality improvement, manufacturing modernization, urban/rural economic development, defense transition, and regional/global economic development. As a result of these special initiatives, the SBDC serves as an important gateway for the participation of faculty and students from all areas of the university in small business development and support initiatives. Faculty and students from engineering, allied health sciences, economics, sociology, languages, communications, architecture and urban planning/development, education, and other academic disciplines have been engaged at one time or another to assist SBDC clients or conduct SBDC research.

The immense value of the SBDC program as a university and regional economic-development resource is reinforced by the manner in which program impact is measured. Every two years, a National SBDC Program Impact Assessment is conducted by an independent consultant. The fourth national study of the economic impact of SBDC counseling activities analyzed the changes in sales and employment of a sample of 5,299 established business and 3,512 pre-venture — prior to start-up of business — clients who received five or more hours of assistance in FY94-95 (See Table Two).

TABLE TWO

**National Impact of SBDC Program**

| Impact in the United States    |                 |
|--------------------------------|-----------------|
| Sales Increase                 | \$9.8 billion   |
| Jobs created                   | 93,000          |
| Tax revenue generated          | \$584.2 million |
| Financing obtained             | \$3.1 billion   |
| Impact per existing company    |                 |
| Sales increase                 | \$180,718       |
| Jobs created                   | 1.92            |
| Funding obtained               | \$67,594        |
| Impact per pre-venture company |                 |
| Sales increase                 | \$392,325       |
| Jobs created                   | 3.18            |
| Funding obtained               | \$87,583        |

Another important aspect of the SBDC Program that reflects the university influence is the SBDC Certification Program. The certification program is a peer-review and accreditation process for the national network. Teams of SBDC state directors assess each SBDC as an organizational component of a complex public/private partnership, interacting in and influencing the commercial and economic development of individual states and the nation. Mandatory certification standards include:

- degree to which the SBDC is integrated into and influences the community outreach and business/economic development mission of the host institution,

- degree of SBDC utilization of host faculty, student and staff to expand and enhance Program service delivery capability,
- a written strategic plan, developed by a broad base of Program stakeholders, and evidence of implementation progress,
- degree of positive regional, state and area business/economic development impact, and
- evidence of service-area needs assessments and SBDC responsiveness to findings.

The certification program demonstrates the capacity for the SBDC Program, as an extension service of the university, to foster sustained economic development while demanding and achieving the level of total quality assurance documented by a process modeled after the university accreditation review.

SBDCs partner with more than 3,300 support organizations including private corporations, chambers of commerce, state/local economic development organizations, trade associations, federal state and local government agencies, and other private/non-private service organizations.

It is estimated that more than 140 universities now operate research and development parks to attract and influence regional economic development. A number of urban campuses have established or support small-business incubators and actively participate in HUB zone, empowerment zone, and enterprise community projects. Investment in new-technology capability and facilities is increasing significantly.

As the emphasis on new-enterprise creation and existing-firm expansion as a viable model for successful economic development continues to grow, universities are not the new players on the field. In fact, universities bring a wealth of experience to the mix. University-based programming like the SBDC and many similar efforts have had a significant positive economic-development impact over the years, and should prove to be an increasingly valuable and integral economic development resource in coming years. Our challenge is to develop and sustain broad-based collaboratives with the requisite scope, scale, and efficiencies to support innovative, effective economic-development strategies.

#### References

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#### About the Author

Woodrow C. McCutchen is the new executive director of the Association of Small Business Development Centers. A graduate of Howard University and the Virginia Commonwealth University School of Business, he has served as director of Howard's SBDC and state director of the Maryland SBDC. He has been director of franchise development and vice president of Jiffy Lube Capital Corporation at Jiffy Lube International, director of Minority Business Development Centers in Richmond and Baltimore, and senior regional accounts manager at Control Data Corporation.