

BUSINESS RESOURCE ALLIANCE

**Building North Carolina's Economic Future through
New Enterprise Creation and Small Business Development**

April 2005

Executive Summary

Building North Carolina's Economic Future through New Enterprise Creation and Small Business Development

North Carolina needs to *balance* its *approach to economic development* to *emphasize entrepreneurship* along with *recruitment, retention, and workforce development*. This better balance among the elements of the state's development portfolio recognizes the critical role and importance of entrepreneurship, new business formation, and business retention and growth for the economic health of the state and the generation and retention of wealth in North Carolina's communities. By balancing the emphases of the state's economic development portfolio, *state policy and investment of public resources* will *encourage the small business sector* to continue *to create* large numbers of new, high-quality *jobs* that North Carolinians need.

Small businesses have been North Carolina's consistent economic engine:

- *94 percent* of North Carolina's business establishments have *fewer than 50 employees*.
- Establishments with fewer than 50 employees generated *\$41.5 billion in wages* and *employed nearly 1.5 million* North Carolinians in 2002 alone.
- Those small establishments *created 83,000 net new jobs* between 1998 and 2002; larger establishments eliminated 21,000 more jobs than they created during that same period.

To encourage the continued creation of jobs, the state needs to increase its commitment to support small business. A support system currently exists, but it needs to expand to fill the *needs that North Carolina's entrepreneurs have stated*:

- Expanded access to capital;
- Increased access to management, technical assistance, and entrepreneurial education;
- Improved regulatory environment; and
- Broadened access to skilled workers.

Current state commitments for small business initiatives amount to less than one tenth of a percent of the state budget, but the return on this investment of state resources is significant. A more **seamless, well-integrated, cost-effective system of support resources should be created to aid in closing the gaps** that impede entrepreneurship, new business creation, and existing business growth.

Recommendations:

- Commit to a balanced portfolio of investment in economic development
- Increase investments to meet the capital, management services, and educational needs of small businesses
- Build on existing strength and capabilities within the service system
- Address gaps and service capacity shortfalls
- Assure increased capital, services, and resources are available to rural businesses
- Support the creation of a seamless system that supports small business
- Require performance and outcome measures for increased investments
- Reduce the disproportionate cost impact of the regulatory environment on small business
- Improve access for small businesses to workforce training and development
- Highlight success and hone policies and services by convening an annual conference on small business and entrepreneurship

A balanced portfolio approach to economic development would include ongoing commitments to recruitment and retention, along with an expanded commitment to stimulating and supporting job creation in the sector that forms the backbone of the state's economy and has created most of the new jobs in North Carolina. *Enhanced investment in new enterprise creation, existing business development, and workforce development can provide a cost-effective complement to the state's ongoing recruitment efforts.*

Building North Carolina's Economic Future through New Enterprise Creation and Small Business Development

Background

Since the year 2000, North Carolina has lost significant numbers of jobs, particularly in the manufacturing sector. The impact of these job losses has fallen most heavily on the state's small towns and rural areas.

Slow improvements in the economy are now evident. Unemployment is down modestly from near-record highs and new business recruitment announcements are increasing. Despite this, the state can expect to see continued job losses in manufacturing and a growing disparity in the economic prosperity of urban and rural areas.

Recognizing this, the North Carolina Rural Economic Development Center conducted extensive interviews and 22 focus groups in 2003 with entrepreneurs, economic development professionals and service providers to understand the environment for entrepreneurship and small business development across the state's 85 less urban counties. The Center's findings resulted in the launch of the Institute for Rural Entrepreneurship in October 2003.

One of the key initiatives of the Institute was to support the establishment of a Business Resource Alliance (see summary and participant list at Appendix 1). While it started with a rural focus, the Alliance now includes service to all 100 counties. The Alliance comprises the entrepreneurial and small business development service providers and includes the major statewide resources and regional organizations. The purpose of the Business Resource Alliance is threefold:

1. Enhance and strengthen business development and assistance services and improve access to services across the state.
2. Improve the quality and integration of services in small towns and rural areas.
3. Serve as the primary advisory and action body for the Institute for Rural Entrepreneurship.

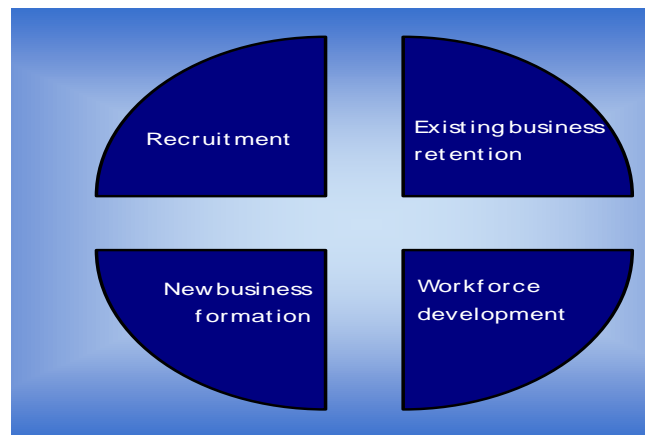
The Alliance is carrying out its work through several working groups: 1) Service Provider Network; 2) Entrepreneurship Education; 3) Economic Development Policy; 4) Capital Access; and 5) Rural Outreach. The Economic Development Policy group was tasked with responsibility for developing this "white paper" on the role and importance of new enterprise creation and small business development as essential elements of North Carolina's overall strategy for economic development.

The Business Resource Alliance believes that **if North Carolina's pressing need for large numbers of new, high-quality jobs is to be met, the State will have to rely heavily on small businesses to provide them.** Rural Center research indicates that firms with fewer than 50 employees created 83,000 new net jobs between 1998 and 2002,

while larger establishments eliminated 21,000 more jobs than they created during that same period. The ability of small businesses to expand their contributions to economic growth and create increased numbers of new jobs can and should be stimulated and supported. This will require a shift in some of the emphasis of North Carolina's economic development policy. It will also require expanded public investments.

The Business Resource Alliance recommends that a **balanced portfolio approach** to economic development be adopted. This approach would recognize the critical role and importance of entrepreneurship, new business formation, business retention and growth as key components of the state's economic development system along with recruitment and workforce development. The N.C. Department of Commerce is an important partner in all of these strategies.

Balanced Portfolio Approach to Investments for Economic Development



In order to balance North Carolina's economic development approach, The Business Resource Alliance recommends an **increased investment of at least \$20 million annually** to support business creation and retention initiatives. This level of new investment would better reflect and support the contributions of new firms and existing new businesses to the state's job creation and economic growth needs.

The Business Resource Alliance recognizes that enhanced public investment in new enterprise creation and small business development needs to be **aligned with overall state strategies for economic development**.

The Business Resource Alliance is committed to creating a more **seamless, well-integrated, cost-effective system of support resources** to promote entrepreneurship, new business creation and existing business growth. This commitment is underscored by the composition of the Alliance itself, consisting of resources from the state, regional and local levels.

Finally, the Business Resource Alliance recommends that **existing, effective service support resources be enabled to expand** their efforts in small towns and rural areas, and that **new initiatives be developed to address gaps** in the service and support system.

The Role of Small Business in North Carolina’s Economy

North Carolina’s small business sector closely mirrors the nation’s. Based on most recent data there are over 470,000 establishments in North Carolina and roughly 163,000 firms have employees. Ninety-six percent of all North Carolina firms have fewer than 100 employees; 94% employ fewer than 50 employees; and 77% employ fewer than 10. (NC Employment Security Commission, 2002))

Firms and Employment in NC by Industry and Firm Size

Selected North Carolina INDUSTRIES	NON-EMPLOYER ESTABLISHMENTS	EMPLOYER FIRMS			EMPLOYMENT		
		Total	< 500	Percentage of 'small' firms	Total	< 500	Percentage of 'small' firms
Construction	77.6	25.1	25.0	99.6%	225.7	188.7	83.6%
Manufacturing	7.7	9.5	8.7	91.7%	690.7	213.2	30.9%
Wholesale trade	11.2	10.2	9.5	93.1%	172.3	104.4	60.6%
Retail trade	51.8	23.1	22.6	97.8%	441.5	185.0	41.9%
Professional, scientific, and technical services	54.5	17.2	16.9	98.3%	158.4	108.8	68.7%
Healthcare/social assistance	27.0	13.6	13.4	98.5%	410.9	191.2	59.4%
Accommodation/food services	5.1	11.1	10.8	97.3%	281.7	167.4	59.4%
Other services	80.9	20.0	19.9	99.5%	148.0	129.5	87.5%
All other industries	159.1	33.8	33.4	98.8%	902.4	313.0	34.7%
TOTAL	474.9	163.6	160.2	97.9%	3,431.6	1,601.2	46.7%

(US Department of Commerce, Census Bureau 2000)

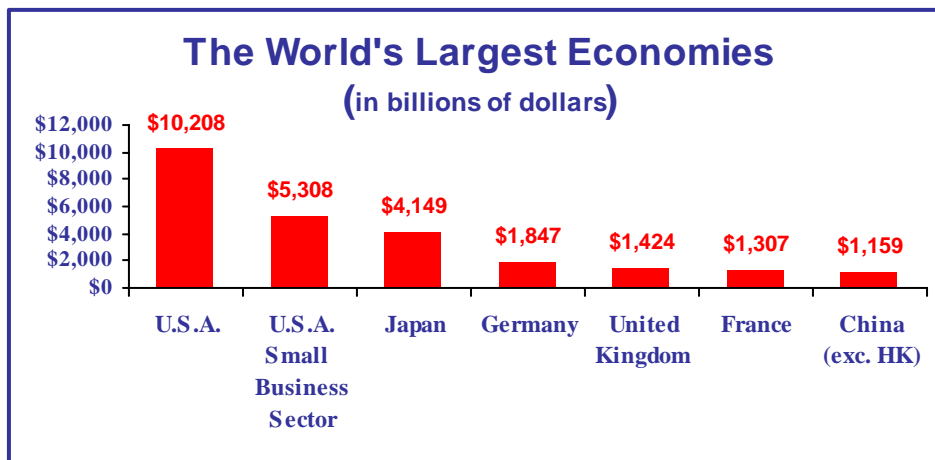
Small businesses are increasingly important contributors to the economy in terms of jobs and growth. Over the past decade North Carolina’s small businesses with under 100 employees have accounted for as much as 60% to 74% of the annual net job growth. Currently they provide nearly one-half of the private sector employment and contribute over one-half of the gross state product. (US Dept of Commerce, Census Bureau; US Dept of Commerce, Bureau of Economic Analysis)

**Job Gains and Losses by Firm Size (in thousands)
for Non-farm Establishments**

	TOTAL EMPLOYEES	EMPLOYMENT BY FIRM SIZE		
		1-19 employees	1-499 employees	500+ employees
GAINS:				
New establishments	177.1	52.9	99.7	77.4
Expanding establishments	347.1	94.2	193.5	153.6
LOSSES:				
Downsized establishments	-283.8	-54.4	-138.7	-145.1
Closed establishments	-166.2	-48.0	-95.0	-71.2
NET CHANGE in employment	74.2	44.8	59.4	14.8
PERCENT NET NEW JOBS	100%	60%	80%	20%

(US Department of Commerce, Census Bureau 2000)

The importance of the small business sector’s contributions to the economy is largely unrecognized. If aggregated, the share of national gross domestic product from businesses with fewer than 500 employees would be equivalent to the second largest economy in the world – ahead of Japan and larger than the combined economies of Germany, France and Great Britain.



ASBDC Congressional testimony

Small businesses contribute to North Carolina in other important ways. They provide most North Carolinians with their first employment experience. Small businesses are also major contributors to the local and state tax base. They contribute a significant portion of the state's income taxes, and their personal and business property taxes represent an important share of local property tax rolls.

As important as their economic contributions, small businesses are locally owned and are essential to the fabric of the lives of the communities where they are located. Business owners and their families provide enormous contributions to political, social, educational, religious and community leadership. They are vested in their communities and recognize that their business futures are integrally tied to the future well-being of the communities where they live and raise their families.

The Inadequacies of Public Policy and Funding Commitments to the Small Business Sector

Despite the enormous role of small businesses in the economy, the sector is underappreciated by public policymakers at both national and state levels. To be sure, there is increasing public comment about the importance of small business but this has resulted in only limited policy and program initiatives aimed at supporting new enterprise creation and small business development.

At the national level, for instance, federal support for small businesses continues to decline. The budget of the U.S. Small Business Administration – the singular focal point for federal support and assistance to small firms – has actually declined over the past decade. Currently, SBA's budget amounts to only three one hundredths of a percent of the federal budget.

At the state level, small businesses are not yet a central policy focus either. Current state commitments to support small business initiatives – represented by support for core programs such as those provided through The University's Small Business and Technology Development Center, the Community College System's Small Business Centers, the N.C. Department of Commerce's ServiCenter, the Rural Center, and a few others – amount to less than one-tenth of a percent of the state budget. This should be seen as a tremendous opportunity by N.C. policymakers.

Particularly with the introduction of important new tools such as the Job Development Investment Grant that improve the state's competitive position in industrial recruitment, North Carolina now has significant state and local resources committed to support industrial recruitment. This includes direct funding for county, regional and state-level support infrastructure. It also includes significant off-budget credits and incentives. Certainly, new jobs result from recruitment, as the large recent announcements demonstrate. N.C. Commerce and others recognize, however, that recruitment efforts alone are not going to be sufficient to meet the future high-quality job growth needed to sustain economic prosperity, especially in rural communities.

A balanced portfolio approach to economic development would include ongoing commitments to recruitment and retention, along with an expanded commitment to stimulating and supporting job creation in the sector that forms the backbone of the state's economy and has created most of the net new jobs in North Carolina. Enhanced investments in new enterprise creation, existing business development and workforce development can provide a cost-effective complement to the state's ongoing recruitment efforts.

Needs of North Carolina's Small Businesses

To reduce business failures, improve competitiveness and stimulate and expand job creation and retention, greater state policy and resource commitments need to be directed to meeting the needs of small businesses. These needs are focused in the following areas:

- Expanded access to capital is needed to support increased new business start-ups and small business growth.
- Increased access to management and technical assistance and entrepreneurial education is needed to improve entrepreneurial skills and decision-making and to improve competitiveness and growth.
- An improved regulatory environment is needed to reduce the cost impact of small business compliance.
- Broadened access to skilled workers is needed to support small business growth.

Expanded access to capital for business start-ups and expansion is critically needed. This is a particularly acute problem in the less urban areas of the state. Limited local investments in revolving loan funds, state investments to support micro-lending and the Rural Center's capital access program have proven effective but are insufficient. Studies have repeatedly confirmed significant financing gaps. Start-up financing is problematic, early-stage seed capital is almost non-existent, and long-term financing for business expansion is woefully inadequate.

Cost-effective investments to fill these gaps could provide the stimulation needed to support significant job growth by the small business sector. Doing so would provide demonstrable returns on investment to the state in terms of new jobs created, retention of existing jobs, and incremental contributions to the tax base.

Increased access to management and technical assistance and entrepreneurial education is vitally important as well. Again, the need for these is most evident in the less urban areas of the state. Very modest state investments in the SBTDC, the Small Business Centers, and the Industrial Extension Service have resulted in effective service

and demonstrated impact results, but current resources cannot meet the demand for services across the state.

Enhanced investments in these types of services would nurture and grow the entrepreneurial culture needed to further encourage new business formation and growth. They would improve business skills and decision-making, help companies be more strategic, and support innovation and competitiveness. Again, cost-effective investments in these types of services would provide significant returns in jobs, taxes, and economic growth.

An improved regulatory environment is needed to reduce the disproportionate costs of compliance to small businesses. The myriad of regulations, reports, and filings for businesses are often overwhelming for small businesses. The costs of compliance and the consequences of failures to comply add significantly to the costs of doing business for smaller firms when compared with larger businesses.

An investment in a streamlined, one-stop regulatory requirement and reporting system could significantly reduce costs and improve compliance (for larger businesses as well). Doing so would improve business competitiveness and increase jobs.

Broadened access to skilled workers and workforce training is needed to provide the quality workforce needed to support small business growth and expansion. Currently, workforce training is provided through multiple systems. Programs offered, particularly those through the community colleges, are well regarded but under-funded. They are, however, principally designed to meet the needs of larger companies and not scaled to respond to train smaller numbers of workers for small firms.

A restructuring and streamlining of current workforce development systems and a specific investment to meet the training needs of small companies would improve workforce skills, productivity and quality. Doing so would improve the competitiveness of small firms, and retain and grow jobs.

Recommendations: Building North Carolina's Economic Future Through New Enterprise Creation and Small Business Development

Recommendations to guide and support this critical shift in policy focus and public investment are set forth below:

1. A public policy commitment to a balanced portfolio of investments in economic development (new enterprise formation, existing business growth, recruitment and workforce development) by the state is necessary.
2. A significant increase in the level of investments to meet the capital, management services and educational needs of small businesses is needed.

3. Increased investments to support small businesses should be targeted to build on existing strength and capabilities rather than reinventing capacities.
4. Increased investments should address gaps and service capacity shortfalls (capital, management and technical assistance and entrepreneurial education).
5. Increased investments should assure that increased capital, services and resources are made available to rural businesses.
6. Increased investments should require that services and resources are better coordinated and that a seamless system of support services is in place.
7. Increased investments should require performance, outcome and return on investment measurements and reporting.
8. Improvements to the regulatory environment should be considered to reduce the disproportionate cost impact on small businesses.
9. Improvements to the current workforce training and development systems should be made to improve access for small businesses.
10. A high profile Conference on Small Business and Entrepreneurship should be held each year.

APPENDIX 1 (as referenced on p. 4)

About the North Carolina Business Resource Alliance

On October 23, 2003 the North Carolina Rural Economic Development Center held its 2003 Rural Partners Forum. The forum brought together more than 600 state and local leaders to explore North Carolina's climate for entrepreneurship, to consider the enormous potential to entrepreneurs to create much-needed jobs in rural communities, and to support new initiatives that focus on self-employment and small business.

At the close of the forum, the Center unveiled its plan to revitalize the rural economy through the creation of the Institute for Rural Entrepreneurship. The Institute has begun an ambitious program to stimulate and support small business development in rural communities. One initiative was to establish a Resource Alliance to strengthen the role of business service providers, improve the delivery of services to rural entrepreneurs and small to medium-sized businesses, and serve as the primary advisory and action body for the Institute for Rural Entrepreneurship.

The Business Resource Alliance held its first official meeting in November 2003. At that time it was agreed that the Alliance needed to serve 100 counties and not just the 85 rural ones. The North Carolina Business Resource Alliance now includes more than 40 members from within the state and is open to additional public and non-profit partners who provide business assistance. The Alliance has committed itself to developing a comprehensive, integrated network of business services for North Carolina's entrepreneurs. Its mission includes three elements:

- To enhance and strengthen business development and assistance services and improve access to services across the state.
- To improve the quality and integration of services in underserved areas.
- To serve as the primary advisory and action body for the Rural Center's Institute for Rural Entrepreneurship.

The alliance has active working groups on economic development policy, entrepreneurship education and training, capital access, service provider networking, and rural outreach.

Business Resource Alliance Membership 2005

<p> Advantage West Appalachian Regional Commission ASU Regional Development Institute Blue Ridge Entrepreneurial Council Council for Entrepreneurial Development Dogwood Equity East Carolina University - Entrepreneurial Initiative - Regional Development Institute e-NC Authority Entworks Consulting Golden LEAF, Inc. Good Work, Inc. Junior Achievement of Eastern NC Mountain Microenterprise Fund NC Minority Business Development Center NC A&T State University - International Trade Center - School of Agriculture & Environmental Sciences NC Banker’s Association NC Business Incubation Association NC Citizens for Business & Industry NC Community College System - Small Business Center Network - Vice President for Workforce & Econ Dev NC Community Development Initiative NC Department of Agriculture & Consumer Services NC Department of Commerce NC Department of Public Instruction NC Department of Secretary of State NC Division of Vocational Rehab Services NC Electric Membership Cooperatives </p>	<p> NC Economic Developers Association NC IDA Collaborative NC Indian Economic Development Initiative NC Institute for Minority Economic Development NC Minority Support Center NC REAL Enterprises, Inc. NC Councils of Government NC Rural Economic Development Center, Inc. NC State University - Cooperative Extension Service - Economic Development Partnerships - Industrial Extension Service - Institute for Emerging Issues Piedmont Triad Entrepreneurs Network Research Triangle Regional Partnership Rural Policy Research Institute - Center for Rural Entrepreneurship SCORE Self Help The University of North Carolina - Office of the President - Small Business & Technology Dev Center (SBTDC) Tobacco Trust Fund Commission UNC Chapel Hill - Office of Business and Economic Development - School of Government UNC-Pembroke Regional Center US Department of Agriculture Western Carolina University - Center for Regional Development </p>
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