

2. SMALL BUSINESS

Within the overall discussion of specific Oregon industries, it is appropriate to first focus on small business. Oregon is known as the premier small business state in the nation, with more small businesses per capita than any other state. There are an estimated 120,000 businesses in Oregon. Only 1,100 of these have over 100 employees; only 100 have over 500 employees. This means that more than 70 percent of Oregon's employees are in companies with less than 100 employees. *In order to improve Oregon's economy, we must, in large part, improve the lot of our small businesses.*

Small businesses are the major source of Oregon's employment growth. A report prepared for the Economic Development Department found that during the 1980s, very small firms -- those with less than 20 employees -- created most of the new jobs in Oregon. Large companies, as a whole, have lost employment throughout this decade. Thus, small businesses represent a strategic opportunity for new employment.

Structural changes in the national and international economy have increased the importance of small businesses in manufacturing and key services. Rapidly changing consumer markets favor smaller, more flexible companies. New technologies have altered the traditional correlation between large production runs and economies of scale. Smaller production runs of specialty goods have become more feasible, which favors small companies. Meanwhile employment in mass production has declined as productivity has improved and as a share of production has moved to low-wage countries.

The trend toward smaller companies suggests that the level of entrepreneurship, and the number of people willing and able to run small manufacturing firms, could be a critical advantage for the future development of a region's economy. It also suggests that a competitive advantage should accrue to regions which have clusters of small firms that produce similar products and professional services available to support those firms. For all of these reasons, cultivating a strong, sophisticated small business climate is critical to the future of the Oregon economy.

Vision

Over the next two decades Oregon will increase its ability to foster successful small businesses development in all parts of the state. State and local government and the state's financial institutions will be partners in this growth, expanding the availability of management assistance programs, improving access to information on regulatory requirements and business assistance programs, and increasing financing available to smaller firms. Our vision includes the development of small business

networks in manufacturing and key support services throughout the state. These networks will facilitate joint research, training, product development, and marketing.

Small business growth is especially important for rural Oregon. Many rural areas are suffering long-term economic decline, with little relief in sight. Without an established base of existing companies (including basic services and retail establishments), it is difficult for these areas to attract outside companies to their communities. Because rural communities typically have less access to financial assistance, consultants, and other business services than do urban areas, we need to make a greater effort to bring such services to rural communities.

Strategy for Achieving the Vision

Oregon's small business strategy recognizes that small businesses succeed primarily because of the talent, creativity, and hard work of individual entrepreneurs. However, there are some specific steps that can help small businesses prosper. In a recent statewide survey and in extensive personal interviews of small business owners the Economic Development Department found the need for two kinds of support: improved access to government (including information on regulation and assistance programs), and expanded management assistance programs. It also appears that small businesses could benefit from small business networks of the kind mentioned above.

Improved Access to Government

To improve small business access to government, and to give small businesses a voice in the formulation of State policies that affect them, the State should take the lead in developing a statewide *small business information system* and a *small business advocacy and intercession system*.

The information system will provide better access to resources which are insufficiently utilized because of lack of knowledge of services, eligibility, and application procedures. It will also give small businesses more complete and accurate information on government regulations and requirements which affect their operations. The dearth of knowledge about assistance programs is surprisingly widespread. The Small Business Committee was not able to determine all of the resources that are available to assist small business. Small business advisors throughout the state indicated that they do not know about most of the resources available. The Small Business Administration in Washington, D.C. stated that it does not know the resources that are available to assist small business even on the federal level. We estimate that there are at least 1,000 resource programs available to assist small businesses. The system proposed here will make all of them more accessible.

The Small Business Information System envisioned will consist of:

- A central "hotline" number
- A regulatory database
- A resource database
- A business assistance officer network
- A tracking and monitoring system
- A statewide delivery system
- A statewide business registration program
- A communication and promotion program

A number of benefits will be generated by the Information System, including reduction of bureaucratic "runaround," reduction of forms and government paperwork, centralized capability for updating regulations and resource databases, reduction of time needed by businesses to research government requirements, and development of a positive climate for small businesses.

The Small Business Advocacy and Intercession Program should be integrated with the Information System to provide a strong voice in government for small businesses. Small businesses are unanimous in believing that such a voice does not exist.

The advocacy program should be carried out by an advocate office that serves three functions. First, it should look out for the concerns of small businesses in State administrative rule makings, both to assure that unnecessary paperwork is avoided and that the small business perspective is included in policy debates. Second, the advocate should serve as a catalyst for raising specific small business concerns to state policy-makers. Finally, it should serve as a catalyst for raising small business issues with other institutions, including the state's banks and educational institutions.

The small business advocate can best perform this role through the operation of the information system. In developing a comprehensive information and permit assistance system, the small business advocate will have readily available a systematic understanding of small business questions and concerns. The two should operate together to make both most effective.

Improved Management Capabilities

Small businesses around the state identified three key areas where they need assistance: 1) developing general management skills, 2) gaining access to financing, and 3) developing export markets. Knowledge of basic business skills and management decision making skills is the greatest need of small businesses. In general, most new entrepreneurs understand their product and how to sell it. However, many lack skills in finance, management information systems, marketing and market research, and personnel management. Without these skills or the resources to hire substantial assistance in these areas, businesses often flounder.

Oregon already has one of the best basic systems for providing this assistance in the country -- the Small Business Development Center Network (SBDCs). However, the network needs to be expanded both in its outreach to greater numbers of small businesses and in its breadth and levels of training. Additional assistance needs to be provided to companies at all levels of growth, in all industries and stages of maturity.

The plan for development of general management skills includes the following components:

- Improve the quality, variety and level of all SBDC program and course offerings
- Expand the capability of all SBDC's to serve more businesses in their area
- Increase public awareness of the availability of the SBDC programs.

Small businesses throughout the state voiced a need for improved access to financing. However, they do not prefer a greater role for the State as a provider of business financing. They were clear that they want help in obtaining financing from traditional private sources. This can be accomplished through greater education and preparation on both sides -- debt and equity resources on the one hand, and small business owners on the other. Greater contact between these groups, and with advisors such as the business development officers at the Economic Development Department, the Small Business Development Centers and the Senior Corps of Retired Executives will also help to accomplish this objective.

In many industries, involvement in international trade is no longer a luxury; small businesses in these industries must become knowledgeable and capable in the world market if they are to survive. However, many Oregon small business owners are uncomfortable with the concept of international trade. The Small Business International Trade Program, already a part of the SBDC Network, plays a key role in acclimating small businesses to global opportunities. This program should be

expanded to provide more services to more Oregon small businesses.

Small Business Networks

Small businesses in manufacturing and key services may have advantages in responding to changing markets. However, they often lack the size and resources needed to support technical research, new product and process development, training, and market research.

In response to these needs, small business flexible manufacturing networks have developed in several regions around the world. These networks are proving to be an effective way of maintaining high levels of manufacturing employment and high-wage jobs. They often had their roots in economic dislocation, for example, where supplier companies were forced to find new markets after their major purchaser shut down. These small businesses banded together to find new markets, stay in the forefront of technology, and keep highly-trained employees. Typically, a large share of their output is exported.

Small business flexible manufacturing networks are actually large, innovative trade associations, functioning with extension agents. In Europe, these trade associations may have 75,000 members and several thousand staff. Working with local government, the networks keep their members abreast of new technologies. They may subsidize a member's conversion to a new machine, as long as that member will supply training to other members when they switch over. Network staff members track changes in market demand, and make that information available to all members. Networks have been instrumental in helping dislocated workers use their skills to set up new companies making new products, and in helping supplier companies develop related products directly for consumer markets.

While flexible manufacturing networks have been developed in manufacturing sectors, the principle is also applicable to services such as tourism, film and video, and software.

Oregon already has at least one budding network in metal fabrication, where a new trade association is developing a proposal for a joint training institute. The State can further the development of networks in a number of ways:

- Researching manufacturing sectors to identify potential networks
- Initiating activities through which networks might be created (e.g. trade missions, workshops)
- Providing seed grants for trade associations

- Supporting network projects such as joint training or marketing centers.

Actions To Implement the Strategy

To implement the small business strategy, Oregon needs to take the following actions.

- Set up the Small Business Advocacy Program and the Statewide Small Business Information System. To do this, approximately \$640,000 in State funds is needed.
- Provide the Small Business Development Center Enhancement Program \$1,000,000 in lottery funds during the biennium. The total funds needed for the enhancement effort are \$2,164,000. The remainder of the funding will be provided by the Small Business Administration, community and state colleges, increased user fees, private sector in-kind contributions, and grants.
- Some of the \$350,000 requested for strategic planning industry strategies should be devoted to facilitating the development of small business networks. Other funds might be appropriated for a challenge grant for private sector-initiated networks.

By focusing on these three areas -- education, assistance, and networks -- Oregon can be a pacesetter in creating an environment in which small businesses are encouraged to flourish.