

Testimony of the Hawai'i Small Business Development Center

Senate Committee on Economic Development and Technology
Friday, January 23, 2009
1:15 p.m.

Conference Room 016
State Capitol

TO: Senator Carol Fukunaga, Chair
Senator Rosalyn H Baker, Vice Chair

From: William Carter, State Director
Hawai'i SBDC Network

Purpose: Informational briefing on the Hawai'i SBDC Network.

An Overview of the Hawai'i SBDC Program:

Federal-State Partnership Program. The Hawai'i Small Business Development Center Network (SBDC) is a partnership program between the U.S. Small Business Administration (SBA) and the University of Hawai'i at Hilo. The program is beginning its 18th-year in Hawai'i and is part of a 25-year old national program that exists in all 50 states and in the territories of the U.S.

Matching Federal Dollars. The Hawai'i SBDC Network is partially funded by the U.S. Congress through the SBA. Under the program as established, the State of Hawai'i must match federal dollars on no less than a one-to-one basis. This state match, then, creates the Hawai'i SBDC Network, which subsequently is able to attract other federal grants with an even more advantageous matching ratio. Over \$29 million in federal funds has been brought into Hawai'i by the Hawai'i SBDC Network since 1994.

Mission. The mission of the Hawai'i SBDC Network is to develop the economy and help individuals statewide by developing entrepreneurial skills among small businesses and the broader community through counseling, training, and research on behalf of small business owners and entrepreneurs.

A Statewide Program. The Hawai'i SBDC Network operates on a statewide basis, with five centers distributed over the islands of Hawai'i, Kaua'i, Maui, and O'ahu. The State Office is located in Hilo as part of UH Hilo.

SBDC Service Centers. Five of the service centers deliver to small businesses a program of management consulting and training through workshops. Additionally, the Hawai'i SBDC Network has a specialty center that operates on a statewide basis—the Hawai'i Business Research Library located in partnership with Maui County.

Regulations Governing the SBDC Program. The SBDC Program, as established in federal law and regulations, (i) is required to be a statewide program, (ii) must be affiliated with a university as its host institution, (iii) must receive state matching funds of no less than a 1:1 ratio, (iv) may not charge for consulting, (v) should avoid competing with private-sector consulting firms, and (vi) must pass a Baldrige based accreditation every four years and a federal financial review every two years to continue to receive federal funding.

Summary of Program Objectives

The fundamental objective of the SBDC Program is to help build a sustainable state economy through management consulting and by training eligible individuals in entrepreneurial knowledge, skills and business acumen. Additionally, the SBDC Program is chartered to provide technical support through information dissemination and partnership with related economic development programs. These activities and efforts lead to key outcomes of increased viability of client businesses as measured in increased sales, jobs created or retained, capitalization obtained, as well as increased successful business starts.

How the SBDC Intends To Meet Its Objectives in the Upcoming Year.

Historically downturns in the economy have over the last 25 years created an increased demand for SBDC consulting and training services. This increased demand is evident in the Hawaii SBDC program as waiting times for consultant appointments are again becoming longer after months of organizational focus on increased productivity to improve timely response and capacity challenges. It is anticipated that there will continue to be significant increases in consulting requests by both existing business and by pre-venture/start-up entrepreneurs as the economy continues to falter.

The recent pattern of requests from clients has demonstrated an increased focus on the challenges companies have in finding working capital to continue operations or in finding funds to capitalize new or expanded opportunities. Additionally, an increase in businesses looking for new markets, particularly, export opportunities, is evident. Small businesses have also been significantly impacted by rapidly escalating energy costs and are looking for education and consulting assistance on how to reduce their current and future exposure to fuel and electricity inflationary pressures. Additionally, there continues to be an increase in requests for consultation, information and training in the use of information technology to reduce operational costs by small businesses.

Although possibly not a direct result of the current economic conditions, there is increasing interest by SBDC high-growth business clients in SBDC services such as equity based capitalization assistance including SBIR applications; product commercialization strategies; and patent, trademark and other intellectual property issues. These are services of SBTDC programs (Small Business and Technology Development Centers) which are an enhanced version of the SBDC program. The Hawai'i SBDC Program provides services of this nature

on a limited basis via its existing service network and continues to explore the feasibility of pursuing the SBTDC designation in its 2010 accreditation review.

Operationally, the SBDC program is presently focused on reducing facility costs (primarily rent), increasing productivity, strengthening and leveraging partnerships, and responding to the increased demand for existing and new services. There were no salary increases for 2008 and none are planned for 2009. Only mission critical positions have been filled when a vacancy exists. One administrative position and one support position have been eliminated. One Researcher position has been added.

Key program objectives are (a) sustaining a *statewide* delivery system for the Hawai'i SBDC Network (b) matching available federal dollars, (c) improving management practice via the full implementation of quality management principles and evidence-based decision-making, (d) insuring that the core mission of the program (consulting) remains the primary focus of the program, (e) increasing service in areas that small business owners and new entrepreneurs indicate will provide the maximum impact on the viability of their enterprises, and (f) increasing the strength of organizational partnerships to insure an elimination of duplication of service and optimal leverage of investment in the program.

Performance Results Achieved in FY 2008:

The number of clients served during FY 2008 has exceeded recent annual averages by about 5 percent. This was achieved primarily by shifting resources from administration to client service. During FY 2008 the SBDC program assisted 1045 existing business owners and new entrepreneurs. Seventy training events were held during the same time period. The program responded to approximately 1200 research requests from small businesses.

Key sustaining outcomes.

The Hawaii SBDC program:

- Matches federal funds,
 - § As of 2008, the Hawai'i SBDC Network has brought over \$32 million in **federal** funds into the State of Hawai'i since 1994.
- Fulfills a need among small business owners for increased knowledge regarding small business operations,
 - § 57.0% (22,200) of small business owners in Hawai'i indicated in a statistically valid survey they would like to use the services of the Hawai'i SBDC Network.

(This statistic is from a statewide survey conducted February 2006 by Market Trends Pacific, Inc.)

- Is effective,
 - § Greater hiring. Clients of the Hawai'i SBDC Network, according to a statistically valid survey, hire 10.8% more employees than does the average business in Hawai'i.
 - § Higher sales. Clients of the Hawai'i SBDC Network, according to a statistically valid survey, have sales increases 12.4% higher than the average small business in Hawai'i.
 - § Clients are satisfied with SBDC services. 97.0% of the clients of the Hawai'i SBDC Network that are established businesses would recommend the SBDC's services, according to a statistically valid survey.

(These statistics are based upon a study conducted in 2008 by James J. Chrisman, Ph.D., Mississippi State University.) This study has been done annually for over ten years.

 - § Outcomes:
 - \$27.3 million in annual economic impact is contributed to the Hawai'i economy.
 - ***For every state dollar invested, \$3.40 in new taxes is returned to the state.*** (2006 study by Scott Thompson, Ph.D., UH Hilo.) Another study suggests that this ratio is \$4.45/1.
- Is accredited and award-winning.
 - § The Hawai'i SBDC Network is accredited under a program required by the U.S. Congress to ensure uniform quality standards among SBDC programs.
 - The SBDC accreditation program is based upon the Malcolm Baldrige Criteria developed by the National Institute of Standards and Technology of the U.S. Department of Commerce to improve the performance of U.S. companies and to create world-class organizations.
 - The Hawai'i SBDC Network was accredited in 1998, 2002, and 2006. In the last two accreditation reviews, it received no conditions, which is uncommon.
 - § The Hawai'i SBDC Network received the Hawai'i State Award of Excellence 1998. The HSAE is affiliated with the national Malcolm Baldrige

Award Program. The Hawai'i SBDC Network is the only SBDC Program in the nation to have received a comparable award.

- § The Hawai'i SBDC Network received the National Economic Development Project of the Year Award for 1999 from the University Economic Development Association (formerly the National Association of Manufacturing and Technology Centers).
- Is flexible and response to changing conditions.
 - § About mid-way through CY 2008 the SBDC Network put 'capitalization' as a key challenge of small enterprises and thus significantly increased efforts to assist clients in obtaining both working capital and investment for expansion. This focus on capitalization has created impressive results as in 2008 nearly 5.4 million dollars in new loans were provided as a result of SBDC consulting assistance. However, the first three months of FY 2009 over 12.9 million dollars in new loans have been awarded to SBDC clients, a 250% increase with three-fourths of the year remaining. We will continue our efforts in this area throughout 2009 as small enterprises have historically led job creation – a significant indicator of economic recovery.

The results of the activities of the Hawai'i SBDC Network demonstrate that the Hawai'i SBDC Network is effective in meeting activity goals for counseling hours, training events, and training hours, but more importantly is efficient in the use of the state's resources and provides a substantial return on the state's investment in the form of new taxes.

How the Effectiveness of the SBDC Program Is Measured:

Types of Measurements. The performance results shown above are aggregated from the entire range of results collected by the Hawai'i SBDC Network through its quarterly and annual reporting from its management information system, its annual client survey, and the two economic impact studies that it conducts annually.

The Hawai'i SBDC Network measures both results of activities and outcomes from activities. These activity and outcome results, then, are ranked against goals, tracked as historical Hawai'i SBDC Network trends, and compared against benchmarks from other state SBDC Programs (where available). This process is reviewed annually. As sufficient historical data becomes available, goals are being set or revised for future years.

Actions Taken To Improve Performance. The Hawai'i SBDC Network has taken three primary steps to improve its performance: (1) It is continuing to incorporate the continuous quality improvement approaches into its own organizational processes – our goal is to consciously be 'a learning organization.', (2) it continues to improve the use of information (feedback) from the recently implemented management information system to drive im-

proved performance and service quality, and (3) it is conducting *annually* two independent economic impact studies and a broad client needs and stakeholder input survey in order to refine organizational approaches and processes that result in improved outcomes. Additionally, customer satisfaction surveys are an integral part of service processes. Performance measures are refined with each cycle of operations in order to incorporate organizational learning resulting in increased productivity, efficiency and outcomes.