

Darryl Mleynek, State Director
Hawai'i SBDC Network

STATE DIRECTOR'S REPORT

During the year 2000, Hawai'i began to recover from its eight years of economic stagnation. While this is good news, what will sustain that recovery remains difficult to determine. Concerns arise from not only the faltering mainland and Asian economies, but also from an assessment of Hawai'i's own economy.

While Hawai'i can only react to Asian and mainland economies, it can make decisions that will positively effect economic development within its own borders. As Hawai'i's economy continues to move through a period of restructuring, it has the opportunity, as any state, to develop its economy by increasing the vitality of its businesses.

To improve the vitality of small businesses in Hawai'i, is the purpose of the Hawai'i Small Business Development Center Network (SBDC). Its mission is to stimulate the economy and help individuals statewide by developing entrepreneurial skills among small businesses and the broader community through counseling, training, research, advocacy, and other resources and activities.

SBDC Program Premises and Strategy. The U.S. Congress created the SBDC Program over 20 years ago. The program began in Hawai'i in 1990, and by 1991 was a statewide program with offices on all four major islands. Congress based the program on the following premises: (1) Small businesses drive the economy because they are the primary generators of new jobs and the place where most innovation occurs. Research supports this premise. (2) If small businesses are given access to individual consulting and workshops offering training in business concepts, then the failure rate of businesses will decrease. Research supports this premise. (3) If Congress requires each state to match its funds, then the program will be supported at not only the federal level, but also at the state level. This has occurred.

The Need for Knowledge. Underlying these premises is an even more basic one: Small businesses need knowledge they do not have. In the Hawai'i SBDC Network, the demand for its services from small business owners and managers substantiates that need. In the year 2000, the Hawai'i SBDC Network provided individual consulting to over 1,000 small businesses, put on over 100 workshops to more than 1,800 small business owners and prospective owners, and responded to 1,200 research inquiries from small businesses.

Better evidence: In the Hawai'i SBDC Network survey of small business owners and managers conducted by Market Trends, Inc. for the year 2000, 49.4% of small business owners and managers indicated that their own experience in operating a business had the greatest positive impact on their business' level of success. They ranked the importance of their own experience higher than any other factor, including an improving economy, greater customer demand, reductions in operating costs or even lower levels of competition.

Conversely, 24.4% of small business owners and managers said their own lack of knowledge about operating a business negatively impacted their business. Out of the 39,000 small businesses in Hawai'i, that means 9,500 of them identify a need for more knowledge about operating their business. That need is critical to their success.

Regarding how to fulfill the need, government programs offering consulting was identified by 33.4% of small business owners and managers as having a positive impact upon their business. That represents over 13,000 small businesses in the state of Hawai'i that believe they are benefiting from programs such as that provided by the Hawai'i SBDC Network.

The Benefit to Small Businesses. Two other facts will demonstrate the actual benefit received by clients from the Hawai'i SBDC Network. In an economic impact study conducted by Dr. James Chrisman, Associate Dean of Research in the Faculty of Management at the University of Calgary, clients of the Hawai'i SBDC Network (1) increased their sales by 20.8% more than the average Hawai'i small business and (2) increased their number of employees by 19.5% more than the average small business in Hawai'i.

When clients were asked to estimate what they believed the value was to

State of Hawai'i

Statehood: 1959
Population: 1,211,537 people
Size: 6,425 square miles
Rank: 47th among states in size
Isolation: Most isolated populated-landmass on earth

Major Cities: Honolulu and Hilo
Ethnicity: 39% Others
 22% Caucasian
 21% Part Hawaiian
 18% Japanese

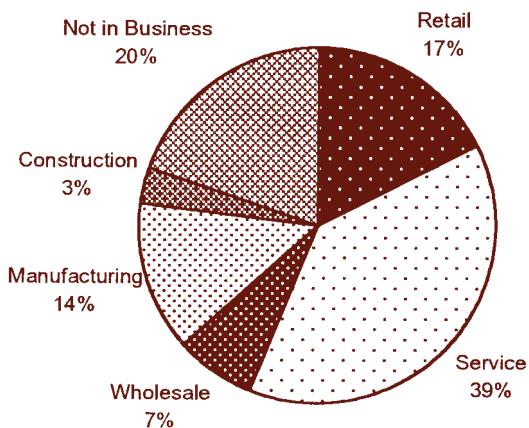
Gross Product: \$39.71 Billion
Industries: Tourism, government, military, service
Unemployed: 4.3%
Clients: 950 clients
 6,342 counseling hours
Training: 112 events, 1,826 attendees

Description: Tourism is the leading industry in the state followed by government employment—federal, state, and county. The military also continues to be very important. Business activity has been largely stagnant for eight years due to a complexity of factors.

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Economic Performance	F	D	D
Employment	F	F	F
Earnings/Job Quality	D	D	D
Equity	C	C	D
Business Vitality	F	F	F
Competitiveness	F	F	F
Entrepreneurial Energy	F	F	D
Structural Diversity	D	D	D
Development Capacity	B	C	D
Human Resources	B	C	D
Technology Resources	C	C	B
Financial Resources	B	B	D
Infrastructure/Amenities	C	D	C

Corporation for Enterprise Development Index Report
Card for the State of Hawai'i.

Type of Business Served



Graph 7.1

them of the consulting they received, they said it was worth more than \$15,800 to each of them. Further, they indicated that nearly \$242,000 of their annual sales revenue was directly attributable to the consulting they received from the Hawai'i SBDC Network.

When clients of the Hawai'i SBDC Network were asked whether they could have obtained comparable consulting from private-sector consultants, a total of 96.0% of Hawai'i SBDC Network clients responded that they could not have obtained private consulting services of a similar quality at a price they considered affordable. Chrisman's conclusion: "It appears that the Hawai'i SBDC Network is filling an important gap in the marketplace since most of its clients would have not had a viable alternative private source of assistance if the Hawai'i SBDC Network did not exist."

The Benefit to the State of Hawai'i. The Hawai'i SBDC Network survey demonstrates a perceived need among small business owners and managers for new knowledge. The Chrisman Economic Impact Study establishes that clients of the Hawai'i SBDC Network receive substantial value in the consulting provided to them. From a public policy perspective, the benefit to the state of Hawai'i still needs to be proven.

An economic impact study conducted by Dr. David Hammes, Professor of Economics at the University of Hawai'i at Hilo, assessed the value of Hawai'i SBDC Network services to the state of Hawai'i. Two facts: (1) The net annual economic impact of the activities of the Hawai'i SBDC Network upon the state of Hawai'i is \$46.5 million. That is, for every dollar the State Legislature invests in the Hawai'i SBDC Network, \$71.59 is produced. Since 1994, the net annual economic impact of the Hawai'i SBDC Network has increased by 171.9%. (2) The state receives \$8.48 in new taxes for every dollar the State Legislature invests in the Hawai'i SBDC Network.

Dr. Hammes stated in a recent interview, "This represents a very efficient use of state funds for economic development. This greater pace of economic activity flows through Hawai'i generating more jobs, higher incomes, and greater tax revenues."

The Conditions under which Small Businesses Thrive. The Hawai'i SBDC Network offers a program of value to its clients with substantial and documented economic benefits accruing to the state of Hawai'i. That program is based upon creating the conditions under which small businesses thrive.

Small businesses thrive when five conditions are met. (1) An understanding of the concept of entrepreneurship, (2) access to adequate capital at reasonable costs, (3) access to critical information, (4) knowledge of continuous quality improvement strategies, (5) few unnecessary governmental burdens, whether those of regulation, taxation, or bureaucratic control.

Understanding Entrepreneurship. Entrepreneurship is different from simply managing a small business. Rather, it is a particular way of doing business that often is counter-intuitive and involves taking advantage of market opportunities, being innovative, and understanding that risk is the very essence of business.

Lack of knowledge about entrepreneurship in Hawai'i is easily demonstrated. In the annual ranking of the 50 states by the Corporation for Enterprise Development (CFED), states are given grades of F for failing through A for excellence. For the year 2000, Hawai'i received an F for Business Vitality, one of the three primary categories. Even more egregious, Hawai'i has received an F for Business Vitality for seven consecutive years.

What the CFED indicators show is that in Hawai'i the number of new companies being formed is average for the states (ranking 27th out of the 50 states), but the trend in new company formations is very low (ranking 47th). More disturbing is that the new companies being formed are not creating as many jobs as is typical for other states (ranking 48th). As well, the number of technology companies, which is important to the state's economic development strategy, is low (40th). In terms of business competitiveness, Hawai'i ranks 46th. Only in the number of business closures does Hawai'i rank high among the states (12th), and unfortunately that indicates businesses in Hawai'i do not survive as long as in other states. A reasonable conclusion from this information,



Left to right: Darryl Mleynek, Cheryl Reeser, Kathy Hammes, Leah Craft, Virginia Branco, and Rian Lau

especially when combined with the knowledge gained by the Hawai'i SBDC Network through consulting with approximately 10,000 companies in Hawai'i over the last decade, is that the concept of entrepreneurship is not well understood in Hawai'i.

Access to Capital. Businesses require capital at every stage of their development. Frequently only a part of that capital is generated internally, either by the business itself or from its owners. In the Hawai'i SBDC Network survey, 30.8% of small business owners and managers identified government programs offering loans as having a positive impact upon their business.

In the Hawai'i SBDC Network survey, 36.2% identified an inability to obtain capital or loans as negatively impacting their business. This need by "unbankable" businesses to obtain loans is critical for those viable businesses that are nonetheless unable to obtain commercial loans.

Access to Information. With the growth of the global marketplace and the New Economy, businesses increasingly need the best possible information. The Internet and new technologies have dramatically increased the amount of information available, but with that increase it has become more and more difficult for business people to find the information they need within the glut of data available. Professional librarians and researchers have become necessary to locate and train small business people in the retrieval of information.

Continuous Quality Improvement. Few businesses can avoid the global marketplace, which is ensnaring them in its all encompassing grasp. To compete successfully, businesses must attain high levels of quality in not only their products and services, but also in their operations. That means they must involve themselves in a process of continuous quality improvement or risk that those companies that do will displace them in the marketplace.

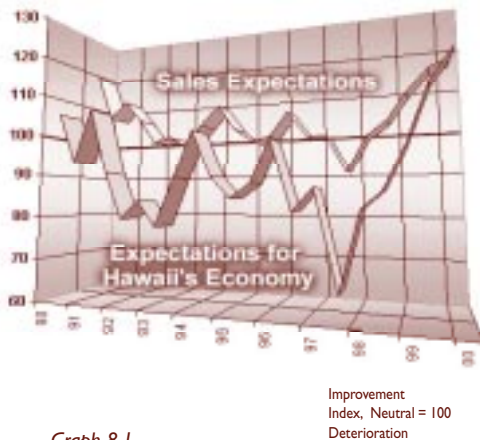
Few Unnecessary Governmental Burdens. The factor cited by small business owners and managers in the Hawai'i SBDC Network Survey as having the greatest negative impact on their business was a flat economy. This factor was identified by 64.8% of small business owners and managers. Second place (56.2%) went to the category of excessive governmental rules and regulations and third place (51.8%) to employer paid payroll taxes and medical insurance.

With the creation of these five conditions under which small businesses thrive, business vitality in Hawai'i will improve . . . perhaps, even, dramatically so given sufficient state support.

Hawai'i SBDC Network Staff. The following pages will provide extraordinary testament to the achievements of the Hawai'i SBDC Network staff.

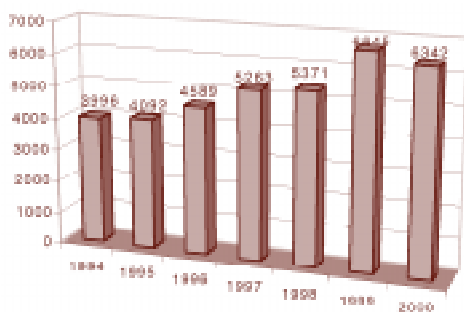
Both the professional and support staff are uncommonly dedicated in their commitment to help small businesses become successful. In that process, they are building the economy of Hawai'i.

Hawaii Business Confidence



Graph 8.1

Counseling Hours Trend



Graph 8.2