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INTRODUCTION

At the beginning of 2001, Hawaii sat at a pivotal point in its economic development. Nine years of economic stagnation had come to an end, yet future economic growth was less than certain due to the slowdown in the national economy. *The State of Small Business: Hawaii 2002* examines that year and looks at the future.

Our data has led us to four conclusions:

- Entrepreneurial businesses that become fast growth companies have a diversity far greater than just being involved with “high technology.” Hawaii’s State Government should actively promote a broad range of types of businesses across all industries.
- The shortage of capital available to Hawaii’s small businesses is a substantial impediment to growth. Small businesses must have adequate access to loans and equity at a reasonable cost. Hawaii’s State Government should actively promote the availability of capital for seeding potential fast growth companies as well as providing venture capital.
- Management consulting and training help reduce the risks to which small business owners are exposed. Hawaii’s State Government should actively promote training that leads to an increase in the knowledge of entrepreneurship and quality improvement among small businesspeople.
- Businesses need many kinds of information to make informed decisions that help them compete in the global economy. Small businesses often cannot devote the time or money to do research for themselves, nor do they have the knowledge necessary to do research. Hawaii’s State Government should actively promote the availability of critical research information so small

businesses can make sound decisions that promote growth in our economy.

Our evidence comes primarily from two sources: The first is a telephone survey of Hawaii’s small business owners and managers. The second source of evidence comes from the study entitled *Development Report Card for the States* published by the Corporation for Enterprise Development (CFED).¹ This annual study ranks all 50 states in three primary categories derived from 70 indices.

The wealth of a community is determined by the success of that community’s businesses. The business sector is where jobs are created and where income is produced to pay taxes to support infrastructural needs of the community—whether roads, schools, a judicial system, social programs or any of the other necessary components of an ordered, caring, and productive society. Due to the economic slowdown in the 1990s, Hawaii’s per capita income has fallen compared to the rest of the nation, and our standard of living has suffered accordingly.

This report focuses on small business. In Hawaii, business is small business. Small businesses in Hawaii represent 97.0% of all businesses, which is approximately 39,000 enterprises out of a total of 40,000.² 53.4% of all businesses in Hawaii have annual sales less than \$500,000 and 36.9% have annual sales under \$250,000. Importantly, 85.7% of all businesses in Hawaii have fewer than 10 employees and 70.6% have less than five.³ The most prevalent business in Hawaii, then, is not just a small business, but a micro-business. The sheer number of small and micro-businesses make them important to the economy of Hawaii.

Yet even their number understates the importance of small and micro-sized businesses to the state of Hawaii. Studies indicate that small businesses, especially micro-businesses with less than five employees, are the primary creators of new jobs in the economy,⁴ the leading innovators,⁵ and the primary exporters.⁶

This, the second annual Hawaii SBDC Network survey, was conducted in order to better determine the state of small business in Hawaii at the beginning of the year 2002. Because of the critical role of small business in the economy, this survey and the CFED ranking of the states provide information important to all citizens of Hawaii, but above all to those engaged in making policy and those who influence the policymakers.

This report reflects the Hawaii SBDC Network’s ongoing commitment to the small businesses of Hawaii and to the larger community through our primary tool—education. Information about the state of small businesses in Hawaii is critically important for those who make decisions affecting business owners, their employees and ultimately

the state's economy, which affects all residents. Our survey provides a snapshot of the opinions of Hawai'i's small business owners and managers at the beginning of 2002. The CFED ranking helps place the state of Hawai'i small businesses in a national and global context.

SUMMARY OF HAWAI'I SBDC NETWORK SURVEY RESULTS

The Hawai'i SBDC Network survey reveals the perceptions of small business people regarding their levels of success and plans for the future. This is a summary only. See the online report at www.hawaii-sbdc.org for complete results. A few of the more important of these survey results are summarized below:

- 35.1% of Hawai'i's small business owners believe the economy will worsen in 2002.

In 2001, small business owners predicted that the economy in Hawai'i would not improve during the course of the year, but only 11.1% actually thought it would worsen. The economy, of course, did not improve in 2001 due to the recession on the mainland, continuing problems with some Asian economies, and the aftermath of the events on September 11th.

In 2002, those who believe the economy will worsen has grown from 11.1% to 35.1%--an increase of 24.0%--while those who believe it will improve have decreased from 41.6% to 24.0%. Business owners are decidedly more pessimistic in their view of 2002 than they were in the beginning of 2001.

Predicted Change in Statewide Economy

	2001	2002	Change
Improve	41.6%	24.0%	-17.6%
Worsen	11.1%	35.1%	+24.0%

The perceptions of small business owners about the economy are important because the state of the economy is one of the factors they weigh when making decisions about expanding their business with new products or services and by hiring additional employees.

- 80.2% of small businesses in Hawai'i were adversely impacted by September 11th.

While 80.2% of small businesses were negatively impacted by the events of September 11th and its aftermath, equally astonishing is that 24.8% were significantly impacted. This represents nearly 9,700 small businesses across the state. Another 4.2% indicate they were disastrously impacted. That amounts to over 1,600 small businesses.

Impact of September 11th on Small Business

	2002	Affected	Significant
Not at All	19.1%		
A Little	27.0%	27.0%	
Somewhat	24.8%	24.8%	
A Lot	24.2%	24.2%	24.2%
Disastrously	4.2%	4.2%	4.2%
Total	99.3%	80.2%	28.4%

Nearly four months following the events of September 11th, the question was asked of small business owners in the Hawai'i SBDC Network survey how long it would take for their business to recover from that event and its aftermath. 20.6% of the respondents said it would take one year or longer before their business would recover. Another 3.4% said their business would never recover. To better understand the depth of the impact, see the table below which shows the length of time owners estimate will be required for recovery.

Time Needed to Recover from September 11th

	2002	Six Months or More	One Year or More
No Time Needed	25.8%		
3 Months	10.5%		
6 Months	24.8%	24.8%	
1 Year or More	20.6%	20.6%	20.6%
Will Never Recover	3.4%	3.4%	3.4%
Total	85.1%	48.8%	24.0%

These facts have serious implications for the future of this state's economy.

- 20.7% fewer small business owners in 2002 than 2001 believe their sales will increase.

Despite their glum assessment of the economy, 38.3% of small business owners believe their sales will increase in 2002. Even so, that is 20.7% fewer than at the beginning of 2001 when 59.0% believed their sales would increase. The 28.6% of businesses reported increased sales for 2001.

Change in Sales Predicted for the Upcoming Year

	2001	2002	Change
Increase	59.0%	38.3%	-20.7%
Decrease	8.9%	16.3%	+ 7.4%

- Sales of More Businesses Declined than Increased in 2001.

In 2001, 52.4% respondents said their sales increased. In 2002, only 28.6% said their sales increased. Interestingly 3.2% of the respondents refused to answer this question in 2001, but in 2002 respondents refusing to answer were 19.6%! While there is no certain explanation for this statistic, it is tempting to assume that it is caused by a reluctance to acknowledge a decrease in sales. If so, the decrease in sales would be even more significant.

Change in Sales during Current Year

	2000	2001	Change
Increase	52.4%	28.6%	-23.8%
Decrease	15.6%	38.5%	+22.9%
Don't Know/ Refused	3.2%	19.6%	+16.4%

- In 2001 more small businesses hired employees than in 2000.

In 2001, 73.2% of small business owners indicated they would hire new employees during the balance of the year. In fact, 34.4% of the small businesses in Hawai'i actually hired new employees in 2001. That seems positive, considering only 28.6% of small businesses had increases in sales in 2001. Perhaps most surprising is that even with the adverse impact upon sales of September 11th and its aftermath, only

1.0% of *small* businesses decreased their number of employees in 2001. Quite possibly, the vast majority of small business owners believed the decrease in sales following September 11th was a temporary aberration and could be weathered without engaging in layoffs.

Change in Employment

	2000	2001	Change
Increase	27.2%	34.4%	+7.2%
Decrease	12.1%	1.0%	- 11.1%

- More small businesses cited Increased Customer Demand as having a positive impact on their businesses than any other reason.

Business owners in 2001 responded to increased demand and 28.6% of them achieved higher sales in 2001, but 21.4% of them also reduced the costs of their operations. This occurred even though 12.5% of the small businesses were in their estimation positively impacted by a lack of competition.

Positive Business Impacts

	2000	2001	Change
Increased Demand	24.1%	34.7%	+10.6%
Reduced Operating Costs	16.9%	21.4%	+ 4.5%
Lack of Competition	17.1%	12.5%	- 5.0%
Internet Sales	14.8%	6.9%	- 7.9%

- More small businesses cited Employer Paid Payroll Taxes and Medical Insurance and Excessive Governmental Rules and Regulations as having a negative impact on their businesses than any other reasons.

The two greatest negative impacts cited by 77.0% of business owners were Employer-Paid Payroll Taxes and Medical Insurance (39.7%) and Excessive Governmental Rules and Regulations (37.3%). This is a combined increase of 16.1% over what was indicated a year ago. Small business owners (32.1%) also cited increased competition, up 9.7% from last year, and an inability to obtain capital or loans (12.3%) as negative factors in their business.

Negative Business Impacts

	2000	2001	Change
Payroll Tax/ Med. Ins.	30.9%	39.7%	+ 8.8%
Excessive Rules & Reg.	30.0%	37.3%	+ 7.3%
Increased Competition	22.4%	32.1%	+ 9.7%
Inability to Obtain Capital or Loans	15.6%	12.3%	- 3.3%

- Fewer Businesses Engaged in Exporting during 2001.

The percentage of small businesses in Hawai'i involved in exporting is low. In 2000, it was 8.5%. In 2001, it fell by 2.3% to 6.2%. Among the 50 states, Hawai'i ranked 43rd in exporting in 2001, according to the Corporation for Enterprise Development.

The entire decrease in number of businesses exporting occurred on O`ahu, which declined from 11.3% in 2000 to 6.3% exporting in 2001. In fact, the number of businesses exporting from the Neighbor Islands increased by 1.7% in 2001.

Small Business Exporters

	2000	2001	Change
Statewide	8.5%	6.2%	- 2.3%
O`ahu	11.3%	6.3%	- 5.0%
Neighbor Islands	4.2%	5.9%	+ 1.7%

- Internet Selling Increases Slightly in 2001.

The number of businesses engaged in selling over the internet increased slightly (1.1%) in 2001 from 2000 reaching 16.5% of all businesses. That represents over 6,400 businesses deriving some portion of their revenue from sales taken over the internet.

Interestingly, internet selling among small businesses on the Neighbor Islands is running 4.6% higher than on O`ahu. Small businesses embracing new technology on the Neighbor Islands faster than on O`ahu may be spurred by a greater need to seek larger

markets due to their much more restricted local markets.

Businesses Using the Internet for Marketing

	2000	2001	Change
Statewide	23.5%	18.5%	- 5.0%
O`ahu	21.9%	17.3%	- 4.6%
Neighbor Islands	25.8%	20.2%	- 5.6%

Surprisingly, firms marketing over the internet have decreased by 5.0%. This may be due to the passive nature of internet marketing and lack of measurable success. Internet selling, in contrast, actively increases sales and is measurable both in terms of sales and costs of sales.

Businesses Using the Internet for Sales

	2000	2001	Change
Statewide	15.4%	16.5%	+ 1.1%
O`ahu	13.1%	14.6%	+ 1.5%
Neighbor Islands	19.0%	19.2%	+ 0.2%

- Finding Workers was Less Difficult in 2001.

The number of small businesses reporting difficulty in finding qualified employees decreased by 19.9% in 2001 from 2000. This may well be due to the increase in unemployment on O`ahu during the latter part of 2001. The Neighbor Islands, whose unemployment rate had not decreased as much as that of O`ahu, did not experience as large a decrease in difficulty, being down by only 8.8%. The difference between O`ahu and the Neighbor Islands is even more clearly seen when looking at the difference between those small business owners who said their experience was "very difficult," and not merely "somewhat difficult." Those citing "very difficult" on O`ahu were 16.9% for 2001 whereas those citing "very difficult" on the Neighbor Islands were 32.0%.

Difficulty Finding Workers

	2000	2001	Change
Statewide	71.1%	51.2%	- 19.9%
O`ahu	73.3%	45.2%	- 28.1%
Neighbor Islands	68.9%	60.1%	- 8.8%

HIGHLIGHTS OF AN ECONOMIC DEVELOPMENT STUDY ON HAWAII

Development Report Card for the States 2001: The Corporation for Enterprise Development's (CFED) study, *Development Report Card for the States 2001*, ranks the 50 states according to more than 70 economic indicators. The current study is the fifteenth annual study. It is based on the supposition that a state's economic performance is the result of the vitality of its businesses, which in turn is based in significant part upon the state's capacity for development. Consistent with this argument, 70 economic indicators are rolled into three primary categories—*Economic Performance*, *Business Vitality*, and *Development Capacity*—which are given grades of A for excellence through F for failing based upon their ranking with other states.

Under this study, Hawaii has received the grades shown on the next page, for the last four years. For the purposes of this report on the *State of Small Business: Hawaii 2002*, the category *Business Vitality* is the most important because it measures the results of the business sector of the economy. However, *Business Vitality* is considerably determined by *Development Capacity* and is influenced as part of a feedback cycle by *Economic Performance*.

Business Vitality in Hawaii. Hawaii has received a grade of F in the category of Business Vitality for eight consecutive years. This means that it has ranked in the bottom 5 states during these years. As a predictor of sustained economic development, this ranking is seriously troublesome. The low Business Vitality index of F is due to low ratings in all three of the subcategories that compose this category. These subcategories are *Business Competitiveness* (D), *Structural Diversity* (D), and *Entrepreneurial Energy* (D).

CFED states: "The level of Competitiveness of Existing Businesses is noticeably low, particularly in its traded sector strength, indicating the state has a relatively weak export base (traded sector strength 43rd). Hawaii's Vitality is uplifted though, with an improvement in dynamic diversity; it skipped from 23rd to 15th. This shows that the state is enhancing employment opportunities in nationally growing industries, which is encouraging for long-term employment and overall Business Vitality. Entrepreneurial Energy changed little, except for the extraordinary leap in change in new companies—it now ranks 5th, up from 47th. However, the state remains in the bottom ten percent in sectoral diversity, new business job growth, and technology companies."

Competitiveness. Under the subcategory of Competitiveness of Existing Businesses, traded sector strength refers to those industries that compete in markets beyond the state's boundaries, including multistate, national, and international. When industries sell products and services beyond the state's boundaries, they bring income into the state and drive the rest of the economy. This is a critical measure. Hawaii ranks 43rd, up from 46th last year.

Business Competitiveness

	Rank
National Grade	D
Traded Sector Strength	43
Change in Traded Sector Strength	32
Business Closings	30
Manufacturing Capital Investment	33

Hawaii is weak in competitiveness due to a history of isolation and the lack of a tradition of large-scale trading or adding value to imported goods that are then exported. Other states that rank low are Arizona (45th), Montana (50th), New Mexico (47th), North Dakota (49th), and West Virginia (44th)—all isolated states. However, Hawaii has designated itself as the hub of the Pacific Rim nations, implying strong international marketing which is not yet present.

The category, change in traded sector strength, is a predictor of a future trend in the state's economic strength. In this category, Hawaii ranks 32nd among the states, which is an indication of an improving trend. This ranking is up from 46th, which had been a relatively unchanged ratio since 1992.

CFED includes business closings as a subcategory based on the assumption that it is the most basic indicator of the competitiveness of the businesses in a state. High competitiveness equates to high business closings which equates to a positive indicator of a healthy business sector. If factors other than competition close businesses such as a poor economy or lack of knowledge about business operations, then the assumption should be called into question as a good prognosticator. Hawaii ranks 30th in this category. This is down from 12th in the previous year at the end of the nine-year stagnant economy. A ranking at 30th is perhaps a more accurate ranking for Hawaii given its current economic performance.

Hawai'i's Report Card

	1998	1999	2000	2001	National Rank 2001	Trend
Economic Performance	F	D	D	D	37	↔
Employment	F	F	F	F	49	↔
Earnings & Job Quality	D	D	D	D	38	↔
Equity	C	C	D	D	39	↔
Quality of Life	-	-	-	C	28	-
Resource Efficiency	-	-	-	A	9	-
Business Vitality	F	F	F	F	48	↔
Business Competitiveness	F	F	F	D	44	↓
Structural Diversity	D	D	D	D	36	↔
Entrepreneurial Energy	F	F	D	D	37	↔
Development Capacity	B	C	D	F	46	↓
Human Resources	B	C	D	D	41	↔
Financial Resources	B	B	D	D	39	↔
Infrastructure Resources	C	D	C	D	43	↓
Amenity Resources	-	-	-	D	43	-
Innovation Assets	-	-	-	C	35	-

Manufacturing capital investment measures the ability of a state to renew its production capacity. Hawai'i ranks 33rd. In the Hawai'i SBDC Network survey, only 14.1% of the businesses surveyed even indicate that they engage in manufacturing of any kind.

Taken together, these indicators show some improvement which increased the grade from last year's F to this year's D. The low grade is due to the lack of an export base. The trend toward a stronger traded sector has resulted in the belief that exports are increasing. However, the Hawai'i SBDC Network survey indicates not only a small number of businesses involved in exporting (6.2%), but a modest decrease of 2.3%. Since these are more recent findings than the CFED study, it does not bode well for the next year.

Structural Diversity. The importance of structural diversity for Hawai'i is great. It is based on the premise that a state's industries must be sufficiently varied that the economy will increase even if some markets are adversely affected by changes. Historically, Hawai'i has not had a diverse economy. Although improved this year, the state still received a D.

The ranking for sectoral diversity, which is a measurement of the degree to which income generated by a state's

traded sector is spread across a range of industries rather than being concentrated in a few, is 47th among the states. Only Delaware (49th), Michigan (48th), and Nevada (50th) rank lower. They are characterized by single large industries. And, as Hawai'i, their economies are vulnerable when that industry is adversely impacted. In the Hawai'i SBDC Network survey, 36.1% of the respondents indicated their business had some involvement in tourism.

Dynamic diversity is a somewhat complicated concept. It measures the similarity in the percentage of year-to-year employment change for a state's key traded industries. A state has low dynamic diversity, which is a positive indicator, when all key industries change in the same direction simultaneously. Simultaneous change indicates a generalized change rather than one affecting a single industry. Hawai'i ranks 15th in this measurement. This is up from 23rd the year previously.

Structural Diversity

	Rank
National Grade	D
Sectoral Diversity	47
Dynamic Diversity	15

Entrepreneurial Energy. This subcategory measures the extent to which a state increases the number of new companies and creates new jobs in those businesses. Last year Hawai`i moved from an F to a D for entrepreneurial energy. This year it maintained that ranking.

Entrepreneurial Energy

	Rank
Hawai`i's Grade	D
New Companies	22
Change in New Companies	5
New Business Job Growth	48
Technology Companies	47
Initial Public Offerings	34

New companies are a critical measurement in this category. They are measured by the number of new companies seeking account numbers from the state employment services department. This means they are companies that intend to hire employees. In Hawai`i, for instance, between 20,000 and 25,000 new GET licenses are granted annually, but only about 3,500 new businesses annually fall into the category of intending to hire employees. In this category, Hawai`i ranks 22nd among the states, up from 27th in 2000.

The measurement, changes in new companies, examines the trend in new venture formations from year to year. Hawai`i ranks 5th in the nation on this measurement. This is an astounding increase from last year's ranking of 47th and begs the question "Why?"

One of the better indicators in this subcategory is new business job growth, which measures the job growth associated with relatively new businesses (5 years or younger). It provides a view of the influence of entrepreneurs on a state's economy through new job creation. Hawai`i ranks 48th, down from 47th last year. This ranking indicates that few new businesses in the state are fast-growth companies. In part, that is due to not having an entrepreneurial tradition in the state.

The size of the technology companies sector correlates highly with strong economic growth in a state. This occurs because a high number of technology companies, in addition to often being high growth companies, increases opportunities for clustering, agglomeration, economies, and dynamic interactions that increase the chances for producing commercially successful companies. Hawai`i ranks 47th, down from 40th last year.

CFED writes about the value of initial public offerings: "The number and/or value of initial public offerings is an

excellent indicator of the growth potential of small companies. The rate and value of IPOs reflects the competitiveness of the state's small business sector. While many innovative and successful companies choose to remain under private ownership, companies that tap into the vast capital resources of the financial markets generate the largest absolute gains in employment and revenue." Hawai`i ranks 34th. That sounds better than it is, because Hawai`i is tied with 16 other states for last place.

Other Rankings Directly Impact Business Vitality. The CFED categories are heavily interrelated, so two factors from *Development Capacity* directly impact *Business Vitality*. They act as leading indicators of business development and are predictive of the future.

Hawai`i's ranking in venture capital investments (12th) is quite high. If it continues at this pace (and it may due to newly passed legislation for tax credits to investors), it will spur a more rapidly developing economy. Small Business Investment Corporations offer target financing to economically and socially disadvantaged entrepreneurs. Ranked at 48th, it is a missed opportunity for the state. Private lending to small businesses (36th) is low considering 97% of all businesses in Hawai`i are small businesses. The Hawai`i SBDC Network survey indicated that 12.3% of businesses applied for a loan (that equates to nearly 4,800 small businesses). It also indicates that 12.3% of small businesses said that a negative impact on their business was an inability to obtain capital or loans.

The measurements listed under Innovation Assets are all indicative of ways that the scientific and university communities can stimulate business vitality. Two are of particular importance—the University of Hawai`i as a research institute (ranking 4th) and Small Business Innovation Research Grants (SBIR) (ranking 20th). University spin-outs (39th) are a considerable opportunity for Hawai`i given the other two factors.

Business Vitality is the factor that drives a state's economy. Hawai`i received an F for the eighth consecutive year. If Hawai`i's economic performance is to improve, then a strategy must be developed to move this sector forward. See Policy Recommendations below.

CONCLUSIONS FROM THE HAWAI`I SBDC NETWORK STUDY

The Hawai`i SBDC Network survey of small business owners and managers, the very people who are struggling to build a vital business sector to support the increased well being of Hawai`i's citizens, indicate that many of them did not fare well in 2001 with 31.0% pointing to a sales decrease and 7.5% indicating greatly decreased sales. Obviously, this decrease was in part due to the negative impact of the events of September 11th and their

aftermath. Respondents to the survey indicated that 80.2% of their businesses were adversely affected and 28.4% were significantly affected. They anticipate that recovery will take, nearly four months after the event, another six months to recover (24.8%), or in some cases another year or longer (20.6%), and in over 1,300 instances they indicate they will never recover (3.4%). Company owners, however, cite other negative impacts as well, especially singling out employer-paid payroll taxes and medical insurance (39.7%) and excessive governmental rules and regulations (37.3%)—a total of 77.0%. Increased competition was also indicated (32.1%).

These factors seem to have led to the conclusion that only 24.1% of the respondents believe the state's economy will improve in the next year, down from 41.6% just a year ago. Another 35.1% believe the economy will worsen.

While small business owners and managers are not especially optimistic about the future (only 38.3% believe their sales will increase), they have not laid off employees in spite of lower sales, while indicating that reductions in the costs of operations (21.4% of small businesses) has had a positive impact. The percentage of businesses that hired new employees was 34.0%. Of those, 51.2% experience difficulty in finding workers, but that is down from 71.1% the year before. The other significant positive impact cited was increased customer demand (34.7%).

Few small businesses are involved in exporting (6.2%) and that number has decreased from last year (8.5%). More are engaged in internet marketing (18.5%) and importantly internet selling (16.5%). For a small number of businesses, increases in internet selling are a positive factor (6.9%). The number involved in governmental procurement (13.5%) is down from last year (18.2%). Each of these represent opportunities for businesses to increase sales beyond the local market.

Throughout the responses to this survey, the small business people from the Neighbor Islands, when compared to those from O`ahu, are somewhat more optimistic. For instance, 40.4% of those from the Neighbor Islands believe the sales in their business will improve compared to 36.9% on O`ahu. Neighbor Island business people indicate by 26.1% that the state economy will improve compared to 22.6% on O`ahu. When projecting an improvement in their own county, the Neighbor Island business people indicate by 32.0% that their county economy will improve while O`ahu business people indicate by 25.6% that their county would improve.

CONCLUSIONS FROM THE CORPORATION FOR ENTERPRISE DEVELOPMENT STUDY

The Corporation for Enterprise Development states that the economic development goals of all states are (1) the increased well-being of its citizens and (2) the acknowledgement in policy decisions that the ability of the state to deliver a more widely shared standard of living depends upon (a) the vitality of its businesses and (b) the strength of its human, technology, and financial resources and of its innovation assets.

This study indicates that Hawai`i lacks a vital business sector. In the rankings of the states, only two states ranked as badly—Louisiana and West Virginia—while 47 states are ranked higher. In the category of *Business Vitality*, only four states ranked as badly—Montana, Nebraska, North Dakota, and West Virginia—while 44 states are ranked higher.

WHAT THE SURVEY AND STUDY SUGGEST

From the perspective of public policy, there emerges from the data in the Hawai`i SBDC Network survey and the Corporation for Enterprise Development state rankings a sense of the difficulty in building a strong economy in Hawai`i that is sustainable. Tourism, even after it recovers, will not accomplish that. A strong, sustainable economy will require a broad, diverse economy including fast-growth companies supported by specific governmental policies.

A Vision for a Vibrant and Sustainable Economy. Any vision for a developing, sustainable economy needs to be based upon two factors:

1. **The Highest Priority.** A vibrant and sustainable economy, based upon the vitality of its business community, is the foundation for fulfilling nearly all other needs in society appropriate to governmental action, whether those of quality education, crime reduction, creation of infrastructure or environmental protection. This reality makes building the economy the highest priority.
2. **Creating the Conditions under which Small Businesses Thrive.** A vibrant and sustainable economy is created when government fosters within the business community the conditions under which small businesses thrive. There are five such conditions:
 - a. **Entrepreneurial Understanding.** The business, educational, and government communities must understand the principles of small business creation and growth, especially those involving

entrepreneurship as a particular way of doing business. The definition of entrepreneurship makes market opportunity the central event, which in turn places the needs and desires of the client as the driver of business activity. It also recognizes that resources can be obtained and should not be a determining factor when market opportunity is present. Finally, it is premised on the notion that risk is the essence of doing business.

- b. **Access to Capital.** Small businesses must have adequate access to capital at reasonable costs. Where risks are too high for the private sector, government must develop programs to make capital available using other risk-reduction methods such as intensive consulting.
- c. **Access to Information.** In today's global economy, small businesses need access to critical information to a far greater extent than ever before. This need can only be fully satisfied through the use of professional researchers. Hawai'i has one library that will do customized research for small businesses—the Business Research Library, a specialized center of the Hawai'i SBDC Network.
- d. **Quality Understanding.** In order to successfully compete over time in today's global economy, small businesses must understand continuous quality improvement concepts.
- e. **Government-Imposed Burdens.** State and county governments must eliminate all unnecessary governmental burdens to businesses, whether those of taxation, regulation or bureaucratic control.

POLICY RECOMMENDATIONS

The Hawai'i SBDC Network survey and the Corporation for Enterprise Development state rankings support the following set of recommendations, which are consistent with the vision for a vibrant and sustainable economy:

The State of Hawai'i should actively promote a broad range of types of businesses across all industries. Entrepreneurial businesses that become fast-growth companies have a diversity far greater than just being involved with high technology. In 1999, *The State New Economy Index*, in its study of the transformation from the traditional economy to the new economy, states that what defines the new economy can occur in all industries. The new economy is less high technology businesses than a

way of doing business that incorporates new technology along with certain attitudes about the centrality of ideas, innovation, and technology. It is fast-growth companies—wherever they occur and of whatever type—that will grow and sustain Hawai'i's economy.

The State of Hawai'i should actively promote the availability of capital—both equity and loans—to a diverse group of businesses, growing businesses committed to Hawai'i. Programs should include loans to “unbankable” businesses that do not qualify for commercial loans because they are start-up businesses or have less than sterling credit or do not have sufficient collateral or are part of the new economy. Other programs should include venture capital for promising entrepreneurial companies with the potential for rapid growth and should include seed-capital, especially in the form of grants and/or equity, but also in the form of loans.

The State of Hawai'i, in addition to supporting education, should actively promote training activities in the form of consulting and workshops that lead to an increase among business people in the knowledge of entrepreneurship and continuous quality improvement concepts. The new economy is based upon the concepts of entrepreneurship, and fast-growth companies are dependent upon those concepts. Also, if companies are to survive over time in the global marketplace, they must learn the concepts of continuous quality improvement. The ways of business are changing faster than the owners and managers of small businesses can learn without these programs. Much as the state supports education and workforce development, it should also support the training of small business owners and managers.

The State of Hawai'i should actively promote the availability of critical information to business people, including the availability of technology information. Businesses need information—whether it is demographics for market studies, competitive analyses for positioning within a market, new product identification or a myriad of other possibilities. Small businesses do not have the funds or time or knowledge to do this for themselves.

The importance of small businesses to Hawai'i's economic health would be difficult to overemphasize. As the foundation of our state's economy, small businesses provide the jobs, income, and taxes that enable us to look into the future with optimism. That is true if the state fosters the conditions under which small business thrive.

Endnotes:

¹ Corporation for Enterprise Development. *Development Report Card for the States 2001*. October, 2001.
<http://drc.cfed.org>

² The definitions for what constitutes a small business are commonly derived from the U.S. Small Business Administration's extensive industry-by-industry definitions. See www.sba.gov/regulations/part121.txt for size regulations in 13 CFR 121.121.

³ Hawai'i SBDC Network Survey of Small Businesses. January, 2002.

⁴ Berney, Robert E., and Bruce D. Phillips, 1995. *Small Business and Job Creation: An Update*. Prepared for the Conference on "Dynamics of Employment and Industry Evolution," University of Mannheim, Germany, January 19-21, 1995.

⁵ According to the National Commission on Entrepreneurship, "Entrepreneurs have been responsible for 67 percent of the inventions and 95 percent of the radical innovations made since World War II." See <http://www.ncoe.org/toolkit/fasfacts.html>.

⁶ Approximately 97.5 percent of the businesses in the United States that export are, according to the U.S. Small Business Administration, small businesses.
<http://www.sba.gov/gils/SBA1998May27.144816.html>.