

**Rural Development Center Newsletter-May 2000**  
**University of Maryland Eastern Shore**

**NEW REPORT: THE FUTURE OF  
SMALL BUSINESS:**

The American economy refuses to slow down. The U.S. Commerce Department reports the economy grew at a staggering 7.3 percent annual rate in last year's fourth quarter -- the highest jump in nearly 16 years. Meanwhile, jobless claims remain at the lowest levels in 26 years.

While much of the economy continues to defy gravity, many people in business, government, and academia are trying to get a clear picture of where we're headed. Will the good times come crashing down, head into a general slow-down, or remain at current levels of growth well into the future? According to a new report, *The Future of Small Business: Trends for a New Century*, the key is to look closely at the economy's hottest sector for answers -- small and emerging businesses. This report was sponsored by American Express, IBM, and National Small Business United in cooperation with RISE business. The research was directed by Richard W. Oliver, Professor of Management at Vanderbilt University. This NCOE Update briefly outlines the report's key findings. More than half of the nation's employees work in firms with 100 or fewer workers, and these firms are responsible for much of the nation's job creation. To that end, the report's underlying theme is that current trends and developments augur accelerating change for emerging businesses in the near future. The prognosis for small and entrepreneurial companies is good, the report states, as improved access to low-cost capital emerges and new opportunities to develop and market innovative technology arise. Other issues, however, such as rapidly changing demographics, labor-force composition, and global competitive pressures, highlight serious

challenges.

Major demographic shifts over the next 15 years show the makeup of entrepreneurship also will change dramatically, the report asserts. The face of entrepreneurs and their employees over this time period likely will be older, female, Hispanic, and African American.

In addition, the study predicts a dip in the supply of younger workers (ages 25 to 44), who are regarded as the most likely to launch a start-up business. This dip, if it occurs, may lead to a corresponding drop in the rate of births of new firms. At the same time, older business owner/managers will leave the workforce, which would lead to accelerating rates of business closures. The confluence of these trends may lead to a severe, albeit temporary, decline in the number of active small and emerging businesses.

On the future of the American labor force, the study predicts well-known current trends: new technologies and organizational structures are fostering unprecedented levels of productivity and profitability. However, an expected drop in the number of young workers with solid backgrounds in science, math, and engineering will make it hard for emerging businesses to fully staff their operations. The report states that emerging businesses are creating new types of jobs that require a new type of employee -- one who possesses a scientific and technical background.

With a severe shortage of these workers now occurring in cities across the country, small and emerging companies are joining larger corporations in pushing for more relaxed immigration policies to recruit technically competent workers. The study also

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acknowledges that small firms are hampered in their ability to recruit and retain talented workers, in part because of inadequate resources for hiring and retention. As a result, companies are developing more creative compensation and benefits packages, including stock options and retraining programs to keep their productive workers. These businesses are also taking the lead in local initiatives for improved K-12 education and vocational training. The Future Trends study cites the burgeoning Internet business-to-business market -- expected to reach \$2.8 trillion in sales by 2003 -- as the most significant change facing entrepreneurial firms. Rapidly expanding opportunities for smaller firms in Internet business-to-consumer and business-to-business sales should continue unabated.

In addition, the study predicts that new technologies (biotechnology, microelectronics, micro-electrical mechanical systems, wide-bandwidth communications) will enable increased business opportunities for emerging companies. Yet, innovations also will occur in more traditional sectors like transportation, finance, and food preparation. The report notes that small and emerging firms are driving development and marketing of in "old economy" sectors as much as they are in high technology.

The report also states that small firms will continue to drive innovation in the economy, and will continue to exploit market opportunities once reserved for large corporations. To that end, small businesses must be attuned not only to their business success, but to government policies. It is essential, the report notes, that government policies not constrain small firms' ability to compete in the marketplace.

In regard to how firms are financed, the study suggests there will be an increasing democratization of capital markets, which will allow small and emerging companies to have more options than ever in financing their businesses. First, as the Internet matures, venture capital, now heavily directed toward dot.com firms, will begin to flow to upstart technology companies as they develop more innovations. Second, small firms will turn to non-traditional funding sources such as foreign financial firms, expanded use of the initial public offering, and the increased use of barter to raise capital.

Capital also will continue to favor intellectual property over physical assets. This means a company's future worth will depend on its intellectual property assets, such as patents, brands, business models, competencies of personnel, and innovations.

The report concludes that the "change at Internet speed" will be the one constant in the future small business environment. The increasing pace of business will place a major strain on emerging businesses, but it may also play to their inherent competitive advantages: adaptability, willingness to change, and the ability to execute.

Entire report at--  
☺ <http://www.sbtrends2000.com>.

Visit NCOE's website--  
☺ <http://www.ncoe.org>.

**PLAYING THE NEW ECONOMY:**

The paradox of a global economy is that it depends in great part on conditions at the local level. The State New Economy Index: Benchmarking Transformation in the States, a report from the Progressive Policy

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Institute, identifies and weighs 17 indicators of how a state stands up to the new economy. It then ranks each U.S. state in general and specifically in relation to each indicator. It also details policies that will help make states stronger and more likely to succeed in the future: coinvestment in workforce skills, coinvestment in an infrastructure supporting innovation- and customer-oriented government, proactive movement toward a digital economy and promotion of civic collaboration. Clearly, developing and supporting effective business incubation is to any state's advantage. Find the report and your state's ratings at-- [www.neweconomyindex.org/states/](http://www.neweconomyindex.org/states/).

#### **ATTENTION: SOCIOECONOMIC DATA USERS:**

To plan economic development strategies, practitioners and researchers must be able to successfully locate, understand and analyze socioeconomic data. That's not always an easy task, considering the myriad data sources and analysis methods. The Commerce Department's Economic Development Administration (EDA) recently addressed those issues and offers two reports and a Web site to help those who use socioeconomic data. *Socioeconomic Data for Economic Development: An Assessment* analyzes the nation's system of socioeconomic data production as well as the use of those data by researchers and practitioners. The report looks at data sources, profiles data users, explores barriers to meeting data users' needs, and offers recommendations to better meet users' needs and increase the use of federal data. *Socioeconomic Data for Understanding Your Regional Economy: A User's Guide* is a comprehensive reference guide for novice and experienced data users. It provides an overview of data sources and describes methods and best practices for analyzing and interpreting those data. A

Web site, [www.econdata.net](http://www.econdata.net) provides more than 425 links to federal, state, nonprofit and commercial data sources. Download the reports from EDA's Web site--

☺ [www.doc.gov/eda](http://www.doc.gov/eda).

#### **FOUNDATION INFORMATION:**

While there are innumerable foundations offering grant funds for various projects at any given time, keeping on top of what's available is no easy job. Whether you're seeking funds for a series of training events or developing an incubation program from scratch, the Foundation Center's Web site-- ☺ [www.fdncenter.org](http://www.fdncenter.org) is a great place to get acquainted with the fundraising process and community. For those new to the foundation field, the site offers resources such as an orientation to grant seeking and an online proposal writing tutorial. Experienced fundraisers seeking serious funds may choose to subscribe to the Foundation Directory Online, a database of more than 10,000 of the nation's largest fundraisers seeking serious funds may choose to subscribe to the Foundation Directory Online, a database of more than 10,000 of the nation's largest funders that allows users to generate targeted lists of funding prospects. Established in 1956, the Foundation Center is a nonprofit information clearing house that fosters public understanding of the foundation field.

#### **BEST STATES FOR START-UPS:**

By Greg Eaddy, Associate Editor, *Business Facilities* magazine

The results are in for the *Bizminer Business Vitality Review* of the best states for business start-ups and the West has come out on top. Nevada had the highest score in the index followed by Idaho, Utah, Arizona, and Texas in the top five respectively. Mississippi was the only eastern state to finish in the top ten at sixth. The State Start-

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up Business Vitality Index was created by implementing five separate factors that contributed to a final index score. Three of the factors were based on the success of over 627,000 start-up businesses that were analyzed over a three-year period from 1997 to January, 2000. These factors were:

- ❑ Survival: Facilities that were still in operation at the end of the period.
- ❑ Survivor Average Sales Growth: Of those survivors, the difference in profits gained between 1997 and 2000.
- ❑ Survivor Average Job Growth: Those same businesses analyzed for employment increases between 1997 and 2000.

In addition, two other factors were included to incorporate recent were:

- ❑ Activity Rate: Start-up businesses, almost 1.1 million total in the U.S., from January, 1999 to January, 2000 proportional to each state.
- ❑ Adjusted Start Rate: This final factor was included to balance the Activity Rate with the Survival measurement.

Rank/State: 1 NV, 2 ID, 3 UT, 4 AZ, 5 TX, 32 MD, 33 VA, 44 DE.

More info. at--

☎ [www.brandow.com](http://www.brandow.com) or  
[www.bizminer.com](http://www.bizminer.com).

#### **WORLD WIDE WEB:**

The Aspen Institute Round table on Comprehensive Community Initiatives presents two new web sites for the community building field.

#### **Measures for Community Research--**

☎ [www.aspenroundtable.org](http://www.aspenroundtable.org)

The Measures for Community Research databases is a collection of measures used to evaluate outcomes viewed as important by

Comprehensive Community Initiatives, public policy makers, program funders, and experts in relevant research fields. This collection of measures covers eight substantive areas referred to as strands: community building, economic development, employment, education, housing and neighborhood conditions, neighborhood safety, social services, and youth development.

#### **Community Building Resource Exchange-**

☎ [www.commbuild.org](http://www.commbuild.org)

The Community Building Resource Exchange provides a broad array of resources and information about innovative community building efforts to revitalize poor neighborhoods and improve the life circumstances of residents and their families.

In recent years, service agencies, and state and local governments have initiated projects based on comprehensive community-building principles and strategies. Their experiences have produced a wealth of learning and documentation on the opportunities and challenges of a community building approach to neighborhood transformation.

#### **NATIONAL POLL GIVES PROSPERITY CREDIT TO PRIVATE SECTOR:**

Both political parties are likely to take credit for the booming economy of the 1990s. However, a Portrait of America telephone survey found that most Americans think that politicians deserve little of the credit. 25% say that small and mid-sized companies deserve the most credit. 19% say consumers; 15% workers; 13% our nation's biggest companies, and 10% name entrepreneurs. Just 3% think that credit should be given to government officials.

Over the last several years, we've asked this

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question in several different ways. No matter how we phrase it, however, the general results are always the same-- most Americans give primary credit to the private sector.

Even among government employees, just 7% give primary credit for the strong economy to government officials. The way that those who are paid by taxpayers see it, workers are most important (22%) followed by small and mid-sized companies (21%), big companies (16%), consumers (14%) and entrepreneurs (9%).

Private sector workers say that small and mid-sized companies deserve the credit (29%) followed by consumers (20%), workers (14%), entrepreneurs (11%), big companies (11%), and government officials (3%).

Women say consumers are the most deserving of credit while men say small and mid-sized businesses.

The survey also found that 68% of Americans have a favorable view of entrepreneurs, while just 8% have an unfavorable view. Americans who invest in stocks, bonds, and mutual funds are even more bullish on entrepreneurs. Among the investor class, 80% have a favorable view of the economic risk-takers and 5% have an unfavorable view.

Americans under 30 have the most favorable view of entrepreneurs (75% favorable, 4% unfavorable). Those over 65 are least enthusiastic about those who start new businesses (49% favorable, 17% unfavorable).

When asked what their ideal job would be, 47% said owning their own company. 21%

said they'd like to work for a small company. Working for a big company is the ideal job for 10%, a total matched by those who would most like to work for a government or government agency.

Owning your own company may be the new American Dream. 61% of those under 30 say that would be their ideal job. Among those over 65, just 29% say owning the company is their ideal job. In the 50-64 age group, 39% want to own their own company.

53% of those who currently work in the private sector want to own their own company. Only 35% of government employees share that view. Among government employees, 29% say working for the government is their ideal job. Just 7% of private sector workers hold this view.

#### Question Wording--

1. Generally speaking, do you have a favorable or an unfavorable view of entrepreneurs who take risks and start new businesses?
2. Who is most responsible for the success of the American economy-- America's biggest companies, small and mid-sized companies, entrepreneurs, consumers, workers, or government officials?

Rasmussen Research conducted the survey of 1,000 adults on March 7, 2000. The final sample was weighted to reflect the population at large in terms of age, race, gender, and geography. For the full sample, the margin of sampling error is +/- 3 percentage points with a 95% level of confidence.

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**<http://skipjack.net>**  
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