

THE SMALL BUSINESS ADVOCATE

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Small Firms Create 76 Percent of the Jobs, BITS Data Show

Small firms created more than three-fourths of net new jobs in the non-farm business sector between 1990 and 1995, according to a newly published Advocacy analysis of Census Bureau data. The data, from the Business Information Tracking Series (BITS) microdata file developed by the Census Bureau with funding from the Office of Advocacy, for the first time allows researchers to conduct a “dynamic” analysis that tracks individual firms as they grow, merge, shrink, or close.

Advocacy’s analysis is reported in *The State of Small Business: A Report of the President, 1998*. The report answers a question that has

plagued small business researchers and advocates alike: If small businesses are such prolific job creators, why doesn’t the small business share of total employment increase over time? Analysis of BITS data demonstrates that although small firms created many more jobs than large firms from 1990 to 1994, the small firm employment share did not increase because, in the process of creating jobs, *some of the small firms grew into large ones.*

Conventional static analyses of job creation measure the number of workers in large and small enterprises at two points in time, but are

Continued on page 4

National Small Business Week Joins Annual Procurement Conference May 6-12, 2001



Ten national small business advocates and special award nominees will be honored during Small Business Week (see story on page 4). Here, one of the judging panels reviews award nominations.

Seven New Top Level Domains to Multiply Supply of Available Internet Names

After several years of rapid growth, the Internet has become a place where good domain names are hard to find. This will begin to change in 2001, however, as the organization responsible for administering Internet names introduces seven new top level domains (TLDs) to the Internet. This change will provide a number of opportunities for small businesses, not the least of which will be to open up a new universe of commercially viable website addresses.

TLDs are the part of an Internet address that follows the period. Existing ones include “.com” (for commercial entities), “.org” (for non-profit entities), “.net” (for Internet service providers), “.gov” (for government agencies), and “.edu” (for educational entities). Earlier this year, the Internet Corporation for Assigned Names and Numbers (ICANN) approved the addition of seven new TLDs. They are “.aero” (for the air transport industry), “.biz” (for businesses), “.coop” (for cooperatives), “.info” (open to everyone), “.museum” (for museums), “.name” (for individuals), and “.pro” (for professionals).

Theoretically, the current supply of Internet domain names is quite large. Companies seeking to register a website or company domain name may use as many as 64 characters plus the TLD. But from a practical standpoint, businesses need domain names that are

commercially viable—short, memorable, and related to one’s business. Finding names that meet these criteria has become increasingly difficult. The new TLDs will more than double the number of available Internet addresses. In addition, they can be used to describe a business. A doctor, accountant, or other professional might want to consider a domain name ending in “.pro.” A cooperative could certainly set itself apart with the “.coop” ending. And “.biz” is an option for any small business.

When they become available later this year, the new TLDs will create the first new infusion of globally available domains in more than eight years. In addition, the new domains will introduce competition into the pricing of domain name registration, which is a compelling issue for small businesses that may need to buy up a significant quantity of related names to link to their sites. They will also let the entities populating the Web better differentiate themselves: individuals, corporations, cooperatives, professionals, businesses, etc.

Seven organizations will be responsible for registering names classified under these new TLDs. They are expected to begin accepting registrations by mid-2001. In the meantime, the Federal Trade Commission has issued a warning about a new scam targeting would-be website owners, offering them the opportunity to pre-register new top level domain names, guaranteeing new top level domain names, or promising preferential treatment in the registration process. But, the agency cautions, these offers may be misleading. For the text of the FTC’s consumer alert, see www.ftc.gov/bcp/online/pubs/alert/s/domainlrrt.htm.

Top Level Domains to Debut in 2001

- .aero**—air transport industry
- .biz**—businesses
- .coop**—cooperatives
- .info**—open to everyone
- .museum**—museums
- .name**—individuals
- .pro**—professionals

The Small Business Advocate

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The Small Business Answer Desk

For More Information

For the latest news about the new TLDs, visit ICANN’s website at www.icann.org/tlds. The Office of Advocacy’s key staff member in this area is Eric Menge, assistant advocate for telecommunications in the Office of Advocacy, (202) 205-6949, eric.menge@sba.gov.

Message from the Chief Counsel

Hitting the Ground Running

by Susan M. Walthall, Acting Chief Counsel, Office of Advocacy

It is a great pleasure and honor for me to have been asked by President Bush to serve as the SBA's acting chief counsel for advocacy. Although just appointed to this post, I have a long history with the Office of Advocacy and a very deep love for it.

My first job with the SBA was with the Office of Advocacy nearly 25 years ago. Since that time, I have worked in senior level positions with three of the previous chief counsels and as deputy to a previous acting chief counsel. I have spent more than half of my career at SBA serving in various positions in Advocacy.

I view my role here as preserving the integrity and commitment of this office to the small business community. I want to make sure that the next Senate-confirmed chief counsel inherits an office that is functioning well, that is continuing the good traditions of past chief counsels, and that contains maximum flexibility for new leadership to hit the ground running.

Advocacy has been able to do all this working in a context in which we are perceived as "a part" of the administration, not "apart" from the administration.

The Office of Advocacy holds an enviable position as a federal government office that is highly regarded by the small business community. In the past 20 years, the office has reviewed several thousand proposed and final rules for their potential impact on small business. Advocacy's analyses and comments have dramatically increased federal agency compliance with the Regulatory Flexibility Act—and the savings to small businesses can be measured in the billions of dollars. Advocacy has been able to do all this working in a context in which we are perceived as "a part" of the administration, not "apart" from the

administration. And I am confident that the office will be a great strength for this administration, which has already shown its significant commitment to improving the regulatory climate for small business.

Advocacy also has a strong reputation for conducting important small business research and developing data bases that can be used to analyze small business issues. This issue of *The Small Business Advocate*, for example, highlights research showing that small businesses continue to generate 76 percent of the net new jobs in the economy. Advocacy's strong research focus will continue on my watch.

President Bush has announced his intent to nominate Hector Barreto as SBA's new administrator and will in the near future, I am confident, announce his nominee for chief counsel for advocacy. In the interim, I look forward to continued work with the small business advocacy community to further the interests of small business.

President Announces Intent to Nominate Barreto for SBA Administrator

On Feb. 26, President Bush announced his intent to nominate Hector V. Barreto to be administrator of the U.S. Small Business Administration. Barreto, a resident of Glendale, Calif., serves on the board of directors of the United States Hispanic Chamber of Commerce and chairs its legislative committee. Barreto is a dedicated advocate of Latino entrepreneurship, as well as the owner of a successful insurance and financial services company located in Los Angeles. He is also immediate past chairman of the board of the Latin Business Association (LBA). Under his lead-

ership, the LBA's membership grew by 50 percent, revenues doubled, and the LBA launched two major initiatives: the Latino Business Expo, which focuses on procurement opportunities, corporate exhibitions, and business education; and the Latin Business Association Institute, which provides technical assistance, education, and business development opportunities to LBA members.

Barreto is a founding member of the New America Alliance and a graduate of Leadership Southern California and the Coro Foundation. He has served on the

corporate advisory board of the Southern California Gas Company and the G.E. Center for Financial Learning. Barreto has been recognized for his leadership by the U.S. Congress, the California Legislature, the county and city of Los Angeles, the American Red Cross, the Multicultural Institute of Leadership, and many other organizations. He received his B.S.B.A. degree in management and Spanish from Rockhurst College in Kansas City, Mo. He and his wife, Robin, have two daughters.

Advocates to be Honored During Small Business Week, May 6-12

National Small Business Week 2001 takes place May 6-12. The theme of this year's celebration is "A History of Success, A Millennium of Opportunity." Each year, in conjunction with the U.S. Small Business Administration's announcement of the National Small Business Person of the Year, the Office of Advocacy sponsors awards honoring outstanding national small business advocates and special award winners. Awards are presented in the following cate-

gories: Accountant Advocate, Financial Services Advocate, Home-Based Business Advocate, Small Business Journalist, Minority Small Business Advocate, Women in Business Advocate, Veteran Small Business Advocate, Small Business Exporter, SBA Young Entrepreneur, and Entrepreneurial Success Award Winner. During National Small Business Week, the national award winners come to Washington for special events in honor of their achievements. In

2001, for the first time, National Small Business Week events will be held in conjunction with the SBA's Annual Joint Industry/SBA Procurement Conference. The events will be held at the Renaissance Hotel in Washington, D.C., May 6-12, 2001. For more information, visit the website at <http://smallbusinesssuccess.sba.gov/>

The next issue of *The Small Business Advocate* will feature this year's winners and their success stories.

Small Firms, from page 1

unable to track how many workers are employed by firms that begin small but become large (and vice versa).

Office of Advocacy economist Alicia Robb, now with the Federal Reserve Board, used the BITS file to find that between 1990 and 1995, small firms (those with fewer than 500 employees) accounted for 76 percent of the nearly 7 million net new jobs added by non-farm businesses. The results are reported in "New Data for Analysis of Small Firm Job Creation," Chapter 2 of *The State of Small Business, 1998*.

Robb found that small firms' share of job creation for the 1990-1994 period was even higher: 80 percent for firms that existed in both years. In contrast, static analysis shows that small firms employed only 830,000 more people in 1994 than in 1990, whereas 2.41 million more people worked in large firms in 1994 than in 1990. The static numbers would seem to imply that small firms accounted for only 26 percent of the job growth over those four years.

The difference arises from the large number of workers in initially small firms that grew into large businesses by 1994. Chart 2.6 of Robb's chapter illustrates this. (The

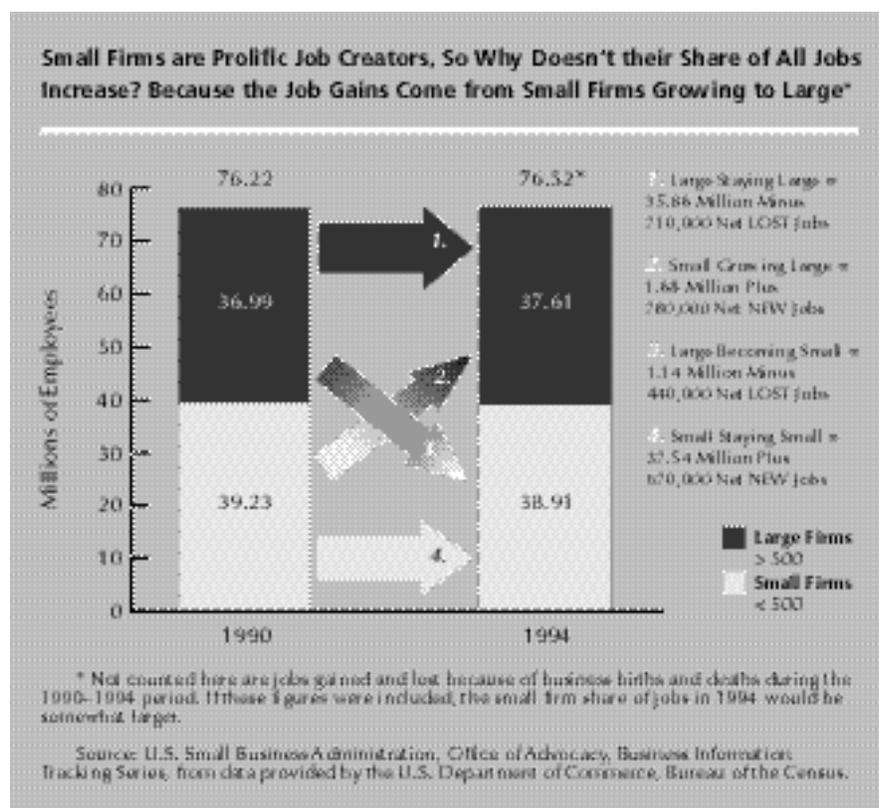


chart is reproduced in this article; it appears on p. 64 of the Acrobat file.) The chart shows that small firms that became large employed 1.68 million people in 1990 and added another 780,000 workers over the next four years, for a total of 2.46 million. Meanwhile, large firms that dropped below 500 employees started with 1.14 million

workers and shrank by 440,000 employees, for a final total of 700,000. A static analysis misleadingly counts the 2.46 million large-firm employees in 1994 as if they had worked for large firms in 1990 and the 700,000 small-firm employees as if they had started out in small firms.

Dynamic analysis corrects this

Regulatory News

Effective Date of Some Rules Delayed 60 Days

Federal regulations that had been published in the *Federal Register* and finalized prior to Jan. 20, 2001, but which had not gone into effect by that date may have their effective dates postponed for 60 days.

President Bush's chief of staff, Andrew Card, issued a directive to all executive branch agencies on Jan. 20 requesting a 60-day delay

in order to give the new administration an opportunity to review the new rules. A few exceptions to the directive have been made for health and safety purposes, emergency circumstances, or other pressing reasons.

Some rules have already had their effective dates delayed. Other rules that would not have taken

effect until later in the year are under review within their issuing agencies to determine if their effective dates should be delayed an additional 60 days. The directive has been added to the Office of Advocacy's website at www.sba.gov/advo/whmemo01.pdf.

problem by tracking each firm over time and shows that the relatively small number of firms that cross the line from small to large account for a surprisingly high percentage of net job changes. Dynamic analysis reveals that small firms actually added 2.59 million jobs (830,000 + 2,460,000 – 700,000), while large firms added 650,000 jobs (2,410,000 – 2,460,000 + 700,000), for an 80 percent share attributable

to firms that were small in 1990.

In addition to the analysis of new job creation data, *The State of Small Business: A Report of the President, 1998* documents other ways in which small businesses continue to make important contributions to the American economy, providing information about small businesses, their employment, profits, earnings, financing, and involvement in government procurement.

For More Information

The State of Small Business is published by the U.S. Government Printing Office and posted on the Office of Advocacy's website at www.sba.gov/advo/stats/stateofsb1998.pdf. Orders for hard copies of the report (stock number 045-000-00294-2) may be addressed by mail to the Superintendent of Documents, P.O. Box 371954, Pittsburgh, PA 15250-7954; by telephone to (202) 512-1800; by fax to (202) 512-2250; or by e-mail to orders@gpo.gov. Call GPO for prices.

Updates to the data series contained in the report will be posted on the Office of Advocacy website at www.sba.gov/advo/stats in the near future.

If you have questions about the report, contact Kathryn Tobias, senior editor, Office of Advocacy at (202) 205-6028, e-mail kathryn.tobias@sba.gov. For more information about uses of the BITS file, go to www.sba.gov/advo/stats/bits_avail.html or contact Ken Simonson, senior economic advisor, Office of Advocacy (202) 205-6973, or send e-mail to: kenneth.simonson@sba.gov.

New E-mail Option for Advocate

Readers of *The Small Business Advocate* have a new choice in delivery options for the Office of Advocacy's newsletter. Electronic delivery is now available by visiting www.sba.gov/advo/news/. A link from that webpage will allow individuals to sign up to receive the newsletter via e-mail. Subscriber information will be kept confidential and not used for any purpose except for newsletter delivery.

Readers may continue to receive hard copies or may discontinue their subscription in lieu of an electronic copy. To discontinue hard copies of *The Small Business Advocate*, send an e-mail request with your current mailing information to advocacy@sba.gov. Readers may also call (202) 205-6533.

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Researchers Invited To Submit Proposals on Six Topics

The Office of Advocacy will publish a list of topics for which it will seek policy-related small business research proposals. Interested researchers should monitor the *Commerce Business Daily* for notice of the request for proposals, and follow instructions for submitting proposals. Awards will depend on funding available at that time, as well as the cost and quality of the proposals.

Database Analysis and Model Building. The broadest topic is database analysis. Researchers are encouraged to submit proposals for using any of several large databases to analyze what is happening to various demographic groups of small businesses (by race or ethnicity, gender, or rural vs. urban location). One possible database is the Business Information Tracking Series (BITS), a microdata file containing information on all non-farm businesses, which the Census Bureau developed with funding from the Office of Advocacy. Other possibilities include Census's new files on non-employer firms and its forthcoming 1997 Surveys of Minority- and Women-Owned Business Enterprises, and the Federal Reserve's forthcoming National Survey of Small Business Finances.

Coping with a Downturn. Another topic involves reviewing the impact of past recessions and/or periods of restrictive lending

("credit crunches") on small firms, in order to analyze how small business might fare in the next such episode. Researchers may also wish to recommend policy initiatives to stave off possible undue effects on small firms.

Implications of Capital Market Shifts. The office would like to know how equity funding for small business has been affected by recent structural shifts in capital markets, such as the rapid growth in pension funds, venture capital and initial public offerings. Have these developments steered more money to small businesses overall, or have they tilted investment toward selected industries and geographic areas? What are the policy implications?

Pros and Cons of a Secondary Loan Market. Another financing question concerns the factors that have prevented the development of a secondary market for small business loans, other than government-guaranteed loans. Are there policy actions that would encourage development of a market like the one that has developed for home mortgages? What are the pros and cons of government action to encourage the development of such a market?

The Many Facets of the ADA. In the regulatory policy arena, the office is seeking information about how the Americans with Disabilities Act (ADA) has affected small busi-

ness. For instance, has ADA broadened the pool of labor available to small firms? Have small firms benefited from an expanded demand for new technologies and services to comply with the act? Has the law imposed substantial or disproportionate costs on small firms? Would any regulatory or statutory change be especially important to small businesses?

Mergers and Industry Concentration. The final request is for proposals to analyze how merger activity has affected the formation and growth of small business. Researchers are encouraged to select an industry where the small business share has declined significantly. Are there policy initiatives that might have prevented this decline, or is it a natural result of technology and other market forces? Have the mergers produced lower prices or other benefits?

For More Information

Request bid packages via U.S. mail from: Office of Procurement and Grants Management, U.S. Small Business Administration, 409 Third Street, S.W., Washington, DC 20416. Check "What's New" on www.sba.gov/advo or call 202-205-6530 for the closing date for requesting bid packages. Faxes and e-mails will not be accepted.

Report on Advocacy's Efforts on Behalf of Rural Enterprise Now Available

Viable small businesses are the core of sustainable rural communities. And today, rural small businesses face special challenges—limited access to capital and technological infrastructure, an eroding employment base, and the need for agriculture to compete globally—to name a few. In recent years, the Office of Advocacy has devoted

greater resources to studying and identifying issues that rural small businesses face.

Advancing Rural America is a 20-page report detailing Advocacy's progress thus far. It describes several studies by Advocacy's Office of Economic Research, numerous federal regulations that Advocacy has analyzed and officially commented

on, and special initiatives of the office.

The report is available on the Advocacy website at www.sba.gov/advo/stats. Paper and microfiche copies of all Advocacy reports are also available for purchase from the National Technical Information Service at (800) 553-6847 or through the NTIS website at www.ntis.gov.

Demographic Groups Show Unexpected Differences in Small Business Survival Rates

A new analysis performed for the Office of Advocacy has turned up noteworthy differences in how long small businesses owned by different demographic groups survived. The report also finds marked variation by industry, location and other variables. The research, by University of Toledo economics professor Richard J. Boden, Jr., looked at how firms with employees that started in 1992 had fared by 1996.

Boden found that 47 percent of the employer businesses started in 1992 survived until at least 1996. Of the four demographic groups studied, businesses owned by Asians and other minorities (Pacific Islanders, American Indians, and Alaska Natives) had the highest survival rate: 50 percent. Next came white non-Hispanic owners, with a 49 percent survival rate, followed by white Hispanic owners at 45 percent.

The differences were not consistent across industries, however. The highest survival rate by demographic and major industry group was for white non-Hispanic businesses in the oil and gas extraction industry; 82 percent of those firms survived from 1992 to 1996. Black-owned legal services firms had the second highest survival rate—79 percent. Although law firms in all other

demographic categories also recorded relatively high survival rates, none exceeded 72 percent.

Boden also looked more closely at two industries: business services and eating and drinking places. Both had overall survival rates close to the all-industry average. But there was wide variation by demographic group for business services. In contrast, all groups had similar survival rates for eating and drinking places—between 36 and 47 percent.

Boden used two Census Bureau databases in his work. The first source, the Business Information Tracking Series (BITS), funded by the Office of Advocacy, provides information about employment and other characteristics of nearly every nonfarm U.S. business with employees. The file is updated yearly, enabling researchers to track whether a firm remained in business over time.

The second source, Census's 1992 Survey of Minority-Owned Business Enterprises and Women-Owned Businesses, provides demographic information about owners of firms that existed in 1992. Former Office of Advocacy economist Alicia Robb, now with the Federal Reserve Board, linked these surveys with the BITS file,

enabling Boden to carry out his comparisons. The linked file contains data on more than 44,000 firms that first reported payroll (employer businesses) in 1992 and the owners of these firms. These records were weighted to yield estimates for all employer businesses that started in 1992—more than 500,000.

Boden's report demonstrates how linking two data sets can provide a wealth of comparative information about firms by demographic and other characteristics. The Office of Advocacy welcomes proposals for further research using BITS and the 1997 surveys of minority- and women-owned businesses. For the latest information on planned release dates, visit www.census.gov/csd/mwb/.

For More Information

Richard J. Boden's report, *Analyses of Business Dissolution by Demographic Category of Business Ownership*, is available on Advocacy's website at www.sba.gov/advo/research. Research Summary 204, which summarizes the study's key findings and methodology, is also available there.

Advocacy Tracks Demographics of the Small Business Work Force

Recently, Brian Headd, economist with the Office of Advocacy, published an article in the Bureau of Labor Statistics' *Monthly Labor Review* entitled, "The Characteristics of Small-Business Employees." Using survey responses from the Census Bureau's Current Population Survey, Headd profiled the demographic makeup of the small business work force.

The article reports slight differences in the work forces of small and large firms. Small firms had a higher share of part-time employ-

ees, employees with lower educational attainments (high school diploma or less), and employees over age 65. However, small firms also employed a higher share of individuals with professional and doctorate degrees. The differences in such factors as age and education partially explain variations between small and large firms in terms of pay, benefits, and industry concentration. A link to this article and other information on small business demographics is available

at www.sba.gov/advo/stats/#demog.

Headd also has two other new studies on business survival and demographics. *Business Success: Factors Leading to Surviving and Closing Successfully* has been published as a working paper of the Census Bureau's Center for Economic Studies (CES). It is available at www.ces.census.gov/ces.php/home. A second CES working paper, *The Role of Race and Gender in Business Survival*, is forthcoming.

Technology Talk

SBIR Intellectual Property Rights Strengthened by Reauthorization Bill

by Terry Bibbens and Maurice Swinton

The 106th Congress added language in the Consolidated Appropriations Act of 2001 (P.L. 106-554) to ensure that SBIR data rights protection is specifically covered in Phase III contracts. This legislation strengthens the existing intellectual property rights of small businesses working on an SBIR program. The SBIR data rights for Phase I and II programs have been protected by special legislation included in the original program and strengthened in past reauthorization bills. Under P.L. 106-554, which was signed into law on December 21, 2000, the SBA's Office of Technology will be issuing a new policy directive to all agencies involved in the SBIR program, instructing them to include this protection in new Phase III contracts, and it will be included in

subsequent revisions of the Federal Acquisition Regulations (FAR).

The basic SBIR data rights are included in the FAR under clause 27.405, "Other data rights provisions," and 52.227-20, "Rights in data—SBIR Program." They provide special protection for four years for small businesses under the SBIR legislation. (See Box.) SBIR winners should become familiar with the special requirements of the FAR for "markings" (notices) on their submittals of products, reports, and data to ensure that their special SBIR data rights are protected for the full period. Questions should be addressed to your contracting officer.

Terry Bibbens is Advocacy's entrepreneur in residence. Maurice Swinton is the SBA's assistant administrator for technology.

SBIR Data Rights

27.405 Other data rights provisions.

(c)...The clause at 52.227-20, Rights in Data—SBIR Program, is for use in all Phase I and Phase II contracts awarded under the Small Business Innovation Research Program (SBIR)...

52.227-20 Rights in Data—SBIR Program

(d)...For a period of 4 years after acceptance of all items to be delivered under this contract, the Government agrees to use these data for Government purposes only, and they shall not be disclosed outside the Government (including disclosure for procurement purposes) during such period without permission of the Contractor, except that, subject to the foregoing use and disclosure prohibitions, such data may be disclosed for use by support Contractors...

See the entire FAR at www.arnet.gov/far.

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