

Focus Groups To Improve Usefulness Of Small Business Research

Acting to improve both the effectiveness and usefulness of the federal government's small business research, the Office of Advocacy held the first two regional research listening sessions in May. The forums gave the small business academics and researchers in attendance a chance to discuss the process and results of Advocacy-sponsored small business research.

"We are holding regional focus groups so that our research products adequately reflect the needs of academics and policymakers," said Dr. Chad Moutray, chief economist for the Office of Advocacy. "We want our reports and data to be an integral part of academic research. This fits with President Bush's management goal of assessing the effectiveness of our programs

through their results, not on the money spent on them," he said.

The first regional focus group took place in Chicago at DePaul University on May 16. Participants included representatives from DePaul, the Coleman Foundation, the Federal Reserve Bank of Chicago, Northeastern Illinois University, the University of Chicago, and the University of Illinois at Chicago. All of the participants had used Advocacy's statistics in their research and presentations. In particular, there was a consensus that Advocacy's one-page publication, "Small Business by the Numbers," is an excellent resource that deserves to be in the hands of every student in the country. (A tear-out version is featured in the May 2003 edition of *The*

Small Business Advocate and on the Advocacy website.)

After reviewing the listings in Advocacy's *Research Publications 2002*, the participants found there were many research studies they were unaware of and strongly urged Advocacy to do more to promote its research. Suggestions included greater Advocacy staff participation at academic and entrepreneurial conferences and participation with textbook writers to make them aware of Advocacy's resources. "It is amazing to see textbooks being printed that still cite flawed statistics such as the startup failure rate," said Dr. Jerry Hills, professor at the Institute for Entrepreneurial Studies of the University of Illinois at Chicago.

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Participants in the Chicago focus group (left to right): Chad Moutray of Advocacy; Harold Welsch, DePaul University; William Testa, Federal Reserve Bank of Chicago; Per Strömberg, University of Chicago; Gerald Hills, University of Illinois at Chicago; and Jianwen Liao, Northeastern Illinois University.

Research Notes

Finance, Technology Featured in Latest Advocacy Publications

Advocacy has recently published two new research reports.

Bank Profitability. *Assessing the Profitability and Riskiness of Small Business Lenders in the Banking Industry*, by James Kolari of Texas A&M University, concludes that banks that specialize in small business lending, including large holding companies, show more return on equity than their counterparts. This finding contradicts the conventional wisdom that large bank holding companies find small business lending a less profitable operation.

“Conventional wisdom says that consolidation and deregulation in the banking industry could lead to less small business lending,” said Thomas M. Sullivan, chief counsel for advocacy. “But this report shows that these trends don’t have to negatively affect that lending. That’s good news for small business owners who may rely on small local banks for financing,” he said.

Small banks have traditionally been one of the major suppliers of credit to small businesses. Concerns have grown that the deregulation

and consolidation through mergers and acquisitions in the banking industry will adversely affect banks’ lending to small business. The argument is that because of higher risk and larger administrative cost per dollar of loans involved in lending to small firms, large bank holding companies will find small business lending a less profitable operation.

The report suggests that defining profitability either as return on equity or as return on assets determines whether small business lenders are more profitable than other banks. Nonetheless, under either definition, the current conventional wisdom that consolidated banks will find small business lending unprofitable does not hold up.

Computer Use and the Self-Employed. A new report by Advocacy economist Victoria Williams, *Self-Employment and Computer Usage*, examines patterns of computer ownership and usage among the self-employed using the Census Bureau’s Current Population Survey: Internet and Computer Use Supplement. The report describes the demographics of self-employed computer ownership, evaluates the factors that influence computer ownership, and describes the characteristics of self-employed individuals who own computers.

- Between 1998 and 2000, the number of self-employed individuals who owned personal computers grew by 14 percent (from 9.2 million to 10.5 million), and the number with Internet access grew by 50 percent.

- In 2000, 73 percent of those who accessed the Internet used a regular or dial-up service.

- Education is an important factor in self-employment, computer ownership, income, and Internet access.

For More Information

Advocacy’s economist, Victoria Williams, can be reached at (202) 205-6191, or by e-mail at victoria.williams@sba.gov. Both reports are available on the Advocacy website at www.sba.gov/advo. Paper and microfiche copies of the banking profitability report are available for purchase from the National Technical Information Service at (800) 553-6847 or through the NTIS website at www.ntis.gov. The NTIS order number is PB2003-102400.

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- The greatest concentrations of self-employed individuals with computers were found in retail trade; construction; and business services, including automobile and repair services.

- A quarter of all capital expenditures by small and medium-sized firms were spent on computer and communications equipment.



Message from the Chief Counsel

Advocacy Debuts a First Alert System for Regulations That Affect Small Business

by Thomas M. Sullivan, Chief Counsel for Advocacy

The Office of Advocacy is always looking for new ways to be more creative and effective in voicing the concerns of small businesses to federal policymakers. Since its founding in 1976, Advocacy has pursued its mission in two ways: by creating research products that help lawmakers understand the contribution of small businesses to the U.S. economy and through regulatory experts who work to convince federal agencies to consider the impact of their rules on small businesses before those rules take effect.

The Office of Advocacy takes its direction from small business. My staff is in regular contact with small business owners, state and local officials, and small business organizations to find out how proposed federal regulations would affect small businesses.

Advocacy is constantly working to make it easier for small businesses' comments to be heard by the federal agencies that make rules. That is why Advocacy has launched a new webpage which we

call the Regulatory Alerts page. This page highlights notices of proposed rulemaking that may significantly affect small entities and contains links to allow users to comment directly on the proposals.

“Advocacy is constantly working to make it easier for small businesses’ comments to be heard by the federal agencies that make rules.”

As my staff discovers new regulatory proposals that may be of concern to small businesses, we will post a link to the proposed rule on the Regulatory Alerts page, along with contact information for the Advocacy staff person tracking the issue, and a link to comment on the proposal. We encourage small businesses to review the page regularly. If you file comments on a rule, we would appreciate receiving a copy of your comments to help us monitor the proposal's impacts.

Please let us know whether this new tool is helpful to you. It won't replace my staff's direct outreach to small businesses. And Advocacy won't be issuing a comment letter on every rule posted there. But for starters, it is a way of letting us sift through the reams of regulations published daily and put them in a format that is easy for small businesses to scan on a regular basis.

The Regulatory Alerts page also contains links to federal agencies, national think tanks, and research centers that are involved with regulatory issues. While not associated with our office, these sites provide valuable background, introductions to a wide range of regulatory issue areas, and analyses of specific kinds of regulation.

You can reach the Regulatory Alerts page from our homepage, www.sba.gov/advo or bookmark the page itself, www.sba.gov/advo/laws/law_regalerts.html. Let us know what you think.

Focus Group, from page 1

The group identified seven topics of interest for future small business research:

- Administrative problems such as taxes and regulations,
- Angel capital financing,
- Financial issues such as the difficulty in obtaining external capital,
- Industry clusters,
- Current challenges in the manufacturing sector,
- Macroeconomic factors that affect small business (e.g., immigration), and
- Health care.

Dr. Moutray moderated a second

regional focus group in Washington, D.C., on May 30. Participants included representatives from the Congressional Budget Office, George Mason University, Georgetown University, George Washington University, the University of Baltimore, and the University of Maryland. Other regional focus groups are in the planning stages.

The Office of Economic Research will prepare an annual report to document the findings of the regional focus groups. Feedback provided by the participants will help guide Advocacy's future research strategies. For more infor-

mation on Advocacy's economic research, visit www.sba.gov/advo/research.

Easier Access to Electronic Resources

Access Advocacy Listservs from a single address. Email notices will supply a hotlink to the new material, so your in-box won't fill up with large documents. At <http://web.sba.gov/list>, check:

- Advocacy Communications
- Advocacy Newsletter
- Advocacy Press
- Advocacy Research

New Research Topics Featured in Latest RFQ

Advocacy is seeking a new round of research proposals via a request for quotations (RFQ). Here are the current topics.

- *Distribution of the Cost of Federal Regulations.* This study will update two previous Advocacy studies on the cost of federal regulations to small businesses. The most recent study found that firms with under 20 employees pay 56 percent more per employee to comply with federal rules than those with more than 500 employees.

- *Costs of Developing a Foreign Market for a Small Business.* Most small firms do not export because the costs of developing export markets far exceed the additional profits derived from export promotion. This study will develop a better understanding of such costs and may assist in developing programs

to help small firms considering entry into foreign markets.

- *State Procurement and Small Business.* GSA has proposed a rule that would open up the federal supply schedule to local governments. This study will explore the impact of such a rule on small businesses.

- *Firm Size Dynamics of Industries.* Industry life cycles are often based on technology. This research would compare new, growing, and declining industries from the perspective of business turnover and competition.

- *Availability of Financing to Small Firms.* The contractor will use the Survey of Small Business Finances to explore financing patterns of minority- and women-owned firms and other topics.

- *Graduate Research.* Ph.D. candidates and other graduate students

are invited to submit proposals to obtain funds for research on small business topics.

Obtaining a Bid Package

Bid packages can be downloaded from FedBizOpps (www.fedbizopps.gov). From the main page, select "find business opportunities." Under "search by agency," select "Small Business Administration," and click "start search." All open SBA contracts will be displayed. Questions concerning the RFQ will be accepted until June 20 and should be directed to Billy Jenkins, contracting officer, (202) 205-7077 (phone); (202) 481-0487 (fax); or billy.jenkins@sba.gov. The completed proposal must be submitted by June 27, 2003.

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