The Microbusiness Way of Growth

How microbusinesses substitute operational efficiency for scale,
and sacrifice organizational growth for revenue growth

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Introduction: the way it has been

In the years since the establishment of the U.S. Small Business Administration (SBA), and perhaps even before that, there were a number of truisms about the launch and operation of a small business. First and foremost of these was the notion that small businesses must grow or die.

By growth, it was understood that small businesses must always be seeking to increase their revenues. In order to do that, they had to increase the size of the organization. After all, there is a limit to what one person can produce in a given 24 hour period. In order for a small business to increase their revenues, they have to sell more product to more customers. At a certain point, they would have to hire staff to help them make more product so that they would have more product to sell.

But, of course, hiring staff increases the cost of running the operation so, in order to reach the pre-employee profit margin of the business, it was necessary to sell still more. This kind of growth was an ongoing feedback loop. The more they needed to make to sell, the more help they needed to make it and the more help they needed, the more it cost to run the business, which meant that they had to sell still more.

The goal was scale, that enviable state an organization reaches when it is large enough to standardize its operations for maximum efficiency and when its market share is large enough to support acquiring production materials at bulk discounts, all of which reduce costs for maximum profit. By that time, the business may or may not still be considered “small” in the context of the size standards established by the SBA but it would certainly have achieved the status of a valuable asset for its owner or owners.

This vision of small businesses is fed by economists, who often assume that companies seek maximum profits through the ongoing pursuit of increased size and revenue. Among other things, these observers operate believe that large firms and small firms behave in the ways they do for the same set of reasons. The bottom line for everybody is, well, the bottom line.

According to this conventional wisdom, there are a few common and standard ways in which all businesses grow. They expand by either gaining in market share, broadening their product offerings, or expanding capacity. An additional feature of this kind of growth trajectory is the ownership philosophy by which companies were run, and which held that it is better for the company to own as much of its supply chain as possible, in much the same way that the banana republics of the 18th and 19th century British Empire supplied cheap raw materials to the rising merchant barons of the home country.

In fact, that was a big part of what the American colonies were supposed to be doing but we decided that we had other things we wanted to be doing over here.

So, for small businesses to grow meant expanding capacity, which they accomplished by seeking either debt financing or equity financing to leverage into greater assets for the company. And, once they reached a certain level of capacity, they were able to expand their market share by seeking large-scale buyers such as local, state and federal government procurement officers and corporate procurement officers.

In the retail and consumer services sector, increasing size and revenues is presumed to take a slightly different path. Retail is a consistently low-margin endeavor in which companies kept costs down by growing large enough to buy at bulk discounts and by keeping employee compensation costs as low as the law allows. Thus, in these sectors, growth has meant expansion by opening more and more locations locally, regionally and, ultimately, nationally.

Of course, then as now, not all small businesses were run by people who wanted to grow into national or multi-national corporate conglomerates with billions of dollars in average annual revenues. These mezzanine businesses kept themselves going in spite of their relative lack of growth by becoming an integral and active part of their local communities and, ultimately, keeping the business healthy so that it could be handed down to the offspring — who would then be set up in life and well provided-for.

And it sometimes happened that these multi-generational small businesses would be transformed into huge corporations when a son or grandson with a bit more ambition assumed the helm.

What has always been interesting about this set of assumptions is the way in which human motivation is removed from the factors that influence the behavior of companies. And, certainly, this model has worked for most of the second half of the 20^{th} century. People who ran small businesses seemed to accept that the *raison d'etre* of their enterprise was growth and they always sought that growth in everything they did or planned to do. One of the main reasons for the staunch conservatism of the small business sector in the last century was the fact that these proprietors were largely interested in accumulating assets and amassing wealth, which made the combined focus on easing regulations and lowering taxes very attractive to them.

This kind of thinking can be readily seen in today's conceptions of what small business owners want and don't want from the federal government. Much of the small business lobby remains concerned with issues that involve either the things that "plunder" those assets (like estate taxes, or taxes of any kind for that matter) or that impede continued growth (like burdensome regulations). Those same lobbying groups claim that small business owners have little interest in informational support such as management training and technical assistance, as much from a Darwinian approach to their own survival as from a political philosophy that eschews government spending for any purpose except law enforcement and military might.

But the separation of the small business owner from his or her humanness is no longer tenable, thanks to the massive changes of the last thirty to forty years. Starting in the 1960s and 1970s, young people began to rebel against the notion that they be *required* to shelve their own individual ambitions and perhaps even to ignore their own individual talents, sacrificing all to the family business. Suddenly, one could not necessarily assume that the kids would take over the company after one was gone. The imperative of being required to continue to care for the family from the grave lost a lot of its power during those years.

Even without that imperative, one might be forgiven for assuming that small business owners would be driven by a desire to make as much money as possible through never-ending business growth. In addition to the social status conferred by increased wealth, the business owners without heirs, or with heirs who were not interested in the business, might instead evolve an exit strategy that involved selling the business when they were ready to retire. In that case, the business owner would naturally want to realize as great a return on their years of investment as possible, and would want to create a valuable and saleable asset.

Again, this illustrates one of the core assumptions of small business ownership: people start businesses to make money. *In fact, it has always been assumed that there is no reason to start a business except a desire to make money.* It might be explained by the individual business owner as a recognition of a gap in the marketplace or perhaps as a desire to market a new technological innovation but, once again, the bottom line is the bottom line.

However, one of the interesting developments of the “greed is good” 1980s was that, toward the end of that decade, people found other reasons to start a business. Some of those new-style small businesses were born of a recognized need for advocacy on a particular issue or on behalf of a particular group. Others were perhaps conceived through the concern of the founder about a specific social or environmental or fiscal issue. Perhaps most prevalent among them, however, was a desire among people to regain control of their own lives.

This decade saw the beginning of the end of that mutual loyalty that was a fundamental part of the employer-employee relationship. Overseas competition woke corporate managers up to the advantages of modernizing their management philosophies in search of Japanese efficiencies. In that climate, employees became easily dispensable commodities that should be shed if they became too costly. It was during this time period that the 40-years-a-pension-and-a-gold-watch work ethic was abandoned by the American workforce, largely in defense against the American corporate managers who abandoned it first.

Parenthetically, another unforeseen and often unremarked consequence of this shift in attitude toward the American worker is that it destroyed much of the pride in workmanship that marked American-made goods. American workers once took pride in doing a good job largely because of an ethos that begins with the laborer’s self-esteem. If he knows himself to be a valuable employee, then he will bask in the ego gratification that he gets from doing his job as skillfully as he is able. When he becomes just an easily dispensable cog in the corporate machinery, he does not feel valued. He has no reason to sink his ego into his work and the job becomes drudgery. This is an important issue and we’ll be returning to it later.

The pace of events picked up in the 1990s as several relevant factors came together. The recession of the early part of that decade presaged an extraordinary period of economic growth and the microbusiness played an important part in that resurgence of the U.S. economy. Everything seemed to come together during that decade to roll out the welcome mat to these smallest of small businesses.

Several technologies matured during the 1990s that allowed individuals to enter the small business arena for less money and with less hassle than ever before. The cost of personal computers had fallen enough so that even moderate income families could afford at least one of them. Once one had a computer, one also had access to all the software that computer could run and it is computer software that can give almost anyone skill in accounting, bookkeeping and paralegal areas without having to hire these experts to advise one for one's business.

These developments were also among the technologies that detached workers from their workplaces, allowing the prospect of telework to come into its own (although managers remain wedded to time clocks in many industries and at many companies, even now). More people began to work from home, and home-based businesses began to capture the attention of the public and the media. (These early blips on the public screen were often a case of making much of what was minor; the media, instead of exploring the fact that more than half the businesses in the country operated out of a residence, fell in love with the romantic notion of legions of high-powered working women heading home to start home-based businesses so they could "be there" for their youngsters.)

Then, at around the middle of the decade, the Internet and electronic commerce came into full bloom. Suddenly, one could start a small business with little more than an idea or a product and the cost of renting web server space and, with that meager investment, reach a worldwide market. Simultaneously, the market for information — not just knowing things, but knowing how to do things and even knowing how to find out things — also began once and for all to displace product-based industries as the main source of growth in the U.S. economy.

On top of all these things, the political climate during the 1990s was extremely microbusiness-friendly. Those tiny businesses were genuinely celebrated in an enthusiastic, if disorganized, way from the top down in the federal government.

The results of all this are the statistics we've all heard before. According to the U.S. Small Business Administration, the number of small businesses in the country grew by an astonishing 73% between 1982 and 1997. Toward the end of the decade, women were starting new businesses at twice the national rate, while minorities were starting new businesses at four times the national rate. By March 2002 (the latest date for which this data is available[1]), almost 95% of all the nation's businesses had fewer than ten employees and more than 90% of them had fewer than five employees. Not only that, but the relative proportion of non-micro small businesses and large businesses among all U.S. firms has declined. Over the last 25 years, only the microbusiness population has consistently grown.

[1]U.S. Small Business Administration, Office of Advocacy, makes firm size data culled from Census Bureau research available online at http://www.sba.gov/advo/research/data.html.

The motives that move the microbusiness

All of the above begs us to take another look at the issue of what microbusiness owners want, what motivates them. Why? Because if, at least in raw numbers, microbusinesses comprise the majority of U.S. firms by such an enormous margin, then it behooves both economists and policy makers to understand them, the better to understand where the interests of microbusiness owners intersect with the interests of U.S. economic and fiscal policy.

For years, the U.S. government has exerted itself to support small businesses because of certain common interests; as small businesses were presumed to seek growth in organization size and revenue, so the government sought growth in job creation and tax revenues.

It was with that clear commonality of interest in mind that policy makers have attempted, for the entire 50-year history of the U.S. Small Business Administration, to provide small businesses with access to the tools they needed in order to grow. **However, in this newly dawned Information economy, the overarching goals of small business owners have changed**. Policy makers need to understand this new set of goals so that they can comprehend that there is now a new set of common interests that they share with the operators of microbusinesses.

In order to understand the goals of microbusiness owners, one must first and foremost understand how microbusinesses operate. Since they are defined by the fact that they do not have designated task-specific personnel[2], successful microbusiness operation requires that the business reach previously unheard-of heights of efficiency. The flip side of that is that time, for everyone involved in the operations of the business, is at a premium. Anything undertaken by the business must pass the cost-benefit test of the amount of time and focus required by the activity versus the potential rewards.

In thinking about potential rewards, one must also bear in mind the reasons microbusiness owners give for being in business. Often the least of these reasons involves amassing wealth. If,

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[2]*The Entrepreneurial Economy* by Dawn Rivers Baker, published by The MicroEnterprise Journal (a media property of Wahmpreneur Publishing, Inc.), 2004.

according to the viewpoint of the microbusiness owner, the potential reward of months or years of unrelenting activity and focus is a great deal more money than they believe they need, they are likely to view that activity as undesirable. That is particularly true because that kind of unrelenting activity and focus must, of necessity, come at the expense of other activities that the microbusiness owner finds more personally rewarding or fulfilling.

Here it becomes necessary to re-introduce the concept of humanness into the discussion of small businesses and how they behave in the context of an economy. Microbusiness owners embrace their humanity with gusto. Many of them are refugees from office environments in which they found that such traits as obedience, conformity and punctuality were difficult to assume where they did not come naturally. Not only that, but contorting their personalities to the degree required was often ill rewarded by employers that demanded more and more from them while simultaneously assuring them that they were not valued and/or were easily replaceable.

From that kind of experience of employment, there can be little wonder why so many microbusiness owners talk about things like freedom, flexibility and self-determination, rather than “recognizing gaps in the marketplace,” when they name reasons why they start their businesses. The ultimate pathology in today’s workplace is that it often robs the worker of any sense of his or her value to the employer. Instead of finding joy and meaning in work, employees often feel “trapped” in their employment by issues such as bills and personal debt, health care benefits and other perquisites, and the obligation to financially support their families.

Microbusiness ownership seems to offer these disgruntled employees a way to enjoy what they do, and feel good about themselves as skilled workers, without feeling that they at the mercy of anal retentive managers who care more about the amount of time they spend working than they care about the quality of the work. They often make significantly less money than they did as an employee in compensation for a great deal more work (particularly during the startup phase of the business), but they are not required to conform to anything except the standards of professional excellence they deem acceptable. Relatively unimportant matters, from office dress codes to office politics, can be put in their proper perspective.

For the microbusiness owner, *it’s the* ***work****, stupid*.

Above all else, these individuals want to feel their life’s work is enjoyable and meaningful. Ultimately, as unscientific and non-quantitative as it is to say so, one must acknowledge that people need to feel that what they do *matters*. Between the seeming randomness of layoffs and the sense many employees have that their departure from the company will cause it no pain, the average employee is often forced to conclude that nothing they do matters. At the opposite extreme of the experiential spectrum lies owning or working for a microbusiness, where everything done by each person involved with the business is important.

In light of all this, it is important to note that, in general, any activity that forces the microbusiness owner to spend his precious minutes (or the equally precious minutes of his employees) focused on tasks that detract from those intangible rewards becomes anathema to many of them. If the microbusiness owner feels as if he or she must sacrifice their devotion to their service or product in order to chase money, in many cases, they will refuse to make that sacrifice.

This shows itself in practical ways. There are many microbusiness owners who, for example, will not take advantage of tax breaks offered by the federal government if they have to spend hours of time they can't spare filling out forms they don't understand, because they feel that the amount of tax savings offered is not worth the pain of the pencil pushing.

It often takes years of networking, coalition building, paperwork and promotion in order for a microbusiness to break into either federal or corporate contracting or subcontracting. In spite of the fact that those kinds of contracts represent millions of dollars in business, there are a great many microbusiness owners who have no interest in these business opportunities because those millions of dollars they *might* earn do not adequately compensate them for the hassle of trying to land those contracts.

Microbusinesses are also exhibiting a tendency to stay micro, as the statistics from recent years show. Between March 2001 and March 2002, the numbers of non-micro small businesses fell while the number of microbusinesses grew. This is unusual because, while there is always a certain amount of churn in firm size class data, there are usually enough microbusinesses that grow to non-micro size to compensate for the number of non-micro small businesses that are removed from the category due to closures, bankruptcies, acquisitions and graduation to "large" status. That did not happen during 2001, and it will be interesting to see whether that trend continues.

The surface reason, the rationale for which many economists will immediately be able to perceive, is that business owners are finding they can produce as much and more with fewer employees. Therefore, they will not needlessly expand their organizations and add to the cost of running the business when they can make as much product and earn as much or more in revenues with their existing staff.

Another reason is the tendency among microbusiness owners to avoid allowing their companies to grow into such behemoth organizations that they will be unable to do the work that they love because they are too busy running a big organization. More employees translates into an increased need for supervision, more administrative duties, and a larger sense of ethical obligation for their livelihoods that can be burdensome during lean times when layoffs may become necessary. Again, for many microbusiness owners, the reward of growing the size of their organization is not often worth such burdens.

This is an important element of understanding how microbusinesses behave, so it bears repeating. **Most microbusiness owners like what they do and they will be disinclined to pursue any growth path that takes them away from being a producer and pushes them toward being an administrator**. That is the primary reason why microbusinesses tend to stay micro.

Moreover, it is easy to see from the above that much of what policy makers do to support and assist small business owners does not accomplish its goals, because those policy makers are supporting the achievement of goals that many small business owners no longer share.

Microbusiness owners are not necessarily interested in creating jobs beyond a certain point. In an information-based economy, scale becomes a more or less meaningless concept in many industries. There is no need to pursue infinite expansion of a business organization in order to either grow revenues or to create something of value in the event the business owner’s exit strategy includes the sale of the business upon their retirement, as we’ll discuss further in the next section.

Similarly, most microbusinesses might like to earn the millions of dollars that come with federal contracting or sub-contracting, but they don’t want it badly enough to go through the contortions often necessary to land those contracts. They might like tax breaks and tax credits, but often will not claim those benefits if doing so will require them to encumber themselves with more paperwork than seems justified by the monetary return.

This is not to suggest that legislators should dispense with these time-honored ways of supporting small businesses by offering tax incentives or spurring organizational growth through federal contracting. It is simply to re-iterate that these kinds of policy initiatives do not accomplish their goals with respect to the vast majority of small businesses, not because the initiatives are inherently flawed but because the goals of those small business owners do not match those of their federal policy advocates. And, if small business policy initiatives are missing 90% of their mark, those policy advocates ought to be seriously concerned.

At the same time, if microbusiness owners have only limited interest in growing their organizations, then it follows that they will be disinclined to behave in ways that legislators want them to and it would appear that the interests of small businesses and the government have diverged. If that is the case, some would argue, there is no longer any reason for the federal government to expend its resources helping small businesses in the way it has been doing over the last fifty years.

Certainly, that proposition would be music to the ears of some who think of the U.S. Small Business Administration as "corporate welfare" and who believe that the federal government has no business spending taxpayer money to help small businesses to do anything at all. But that conclusion is a bit short sighted. Even if microbusinesses are not likely to help the federal government by growing their organizations beyond micro size, they remain the primary source of job creation. And, while most microbusinesses have average annual revenues that are as small as their organizations, they have a great deal of unrealized potential to make a much greater impact on overall economic growth than many people seem willing to credit them with at this time.

Allow me to offer just one simple example.

As of March 2002, there were approximately 22 million microbusinesses in the United States. There are so many of them that there is a great deal of potential for job creation with no need to pressure any one of them to grow larger than their owner is comfortable with. Consider the economic impact if each microbusiness in the country were to hire just one employee. The Clinton Administration made a great deal of noise about their record of 22 million jobs created, but it took them eight years to do it. As a group, microbusinesses could do the same thing practically overnight.

In fact, every single individual who opts for self-employment also creates a job — his or her own. In this context, it should be unnecessary for federal agencies to stridently urge microbusiness owners to create more jobs and seemingly (at least from the perspective of some microbusiness owners) withholding their support and assistance from those choosing to stay micro.

In a climate in which non-micro small businesses are shrinking in their proportion of overall U.S. firms while microbusinesses are growing, for example, the federal government is going to eventually have to recognize that they must contend with the scenario in which 10,000 tiny firms may create one job each rather than 1,000 somewhat larger firms creating 10 jobs each. Those non-micro small businesses will continue with their hiring, as usual, but it would be in the interests of the government to look further into mirobusiness hiring practices and, particularly, into the barriers that prevent non-employer businesses (a category that, by itself, accounts for 75%, or 17.6 million, U.S. firms) from making the transition to employer firms.

Clearly, this example demonstrates that the interests of the federal government have not necessarily diverged from those of small business owners. Rather, those federal policy makers must simply recognize that they will have to take a different path to achieve their goals with respect to the positive impacts of small businesses on the economy. Similarly, legislators looking for ways to incentivize certain behaviors among microbusiness owners will doom their own efforts to failure if they remain unwilling to factor the operational realities of microbusinesses, or the motivations of their owners, into those incentives.

In short, as we say in business, it is important to understand your market.

The micro way of growth

Another very salient reason why it behooves policy makers and economic analysts to understand the workings of the microbusiness is because it is in everyone's interests to recognize their potential for contributing to continued growth in the larger U.S. economy.

Currently, almost everyone is inclined to ignore microbusinesses as contributors to economic growth. In fact, the primary reason why small business advocates still unconsciously pressure those micros to grow their organizations is because they assume these businesses will not be able to achieve significant revenue growth without organizational growth and the achievement of economies of scale.

"Scale" is the reduction in cost per unit resulting from increased operational efficiencies that come about as the amount of goods produced increases. The idea is that it becomes less expensive to produce your product as you make more of it, so that scale increases your market share by allowing for more competitive pricing and it increase your profits by reducing costs.

Traditionally, in a previous age, a small business would have needed a minimum of ten or twenty employees in order to grow its revenues past the $1 million benchmark. As recently as the late 1990s, research indicated that firms with employees tended to earn higher average annual revenues than firms without employees.[3] That seems reasonable, since firms with employees would *have* to earn more than firms without them, simply because firms with employees have higher operating costs. From this, experts assumed that small firms were unable to grow their revenues beyond a certain point unless they grew their organizations accordingly.

Thus, on some level, small businesses also sought scale, at least to the extent of reaching a level of efficiency at which they could cover production costs, taxes and other expenses while remaining profitable. It is from this perspective that many of the traditional small business policy

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[3]In *Home-Based Business: The Hidden Economy* (U.S. Small Business Administration, Office of Advocacy: 1999), for example, Pratt concluded that home-based business owners seeking high earnings did so by hiring employees, along with working longer hours and seeking primary, rather than secondary, income from their businesses.

issues have emerged.

It has been important to keep taxes low for small businesses, for example, so that they could have that cash to reinvest in their businesses because profit margins were slim enough to make high taxes matter when it came to internally financing continued expansion and growth.

Similarly, regulatory compliance burdens existed for many small businesses in part because of the range of different regulatory agencies to which they were accountable in the course of normal business. In addition to Internal Revenue Service, Occupational Health and Safety and other Labor Department regulations to which employer firms were subject, there were industry-specific regulations covering environment safety and consumer protection concerns — all of which imposed further costs and squeezed profit margins for small businesses.

In order to be competitive, small businesses needed to grow their revenues to the point that they could absorb all these additional costs with enough sales volume to allow them to avoid passing too much of those costs on to consumers, while still maintaining reasonable profit margins. One of the ways to reach that level of sales volume was by selling to the world's top buyer: the United States government. Thus, federal procurement retained its place in the stable of traditional small business issues.

But today's microbusinesses hail from a different economic universe. They pursue growth through operational efficiencies that tend to be knowledge and technology oriented instead of production-oriented. Software substitutes for clerical staff, bookkeepers and, in cases of minor matters, even for lawyers and accountants. Advances in telecommunications technologies have significantly reduced marketing and promotional costs. Microbusinesses also tend to source out physical production of tangible products rather than investing in capital equipment and the personnel to operate it, while new fulfillment technologies and services keep inventory and warehousing expenses minimal to non-existent. This makes it possible for microbusiness owners to run extremely lean outfits with very low operating expenses, always seeking maximum efficiency within their very small organizations.

Then, too, a great many microbusinesses rely for their revenues not on what they make but on what their owners know or know how to do. They tend to use that knowledge or skill to develop products they can make once and then sell to an almost infinite number of customers.

This creates value from a minimal amount of ongoing investment because, unlike real property or tangible equipment, knowledge assets are not subject to generally accepted laws of diminishing returns. An idea can be used again and again, repackaged in different ways to satisfy the needs of different customers, without necessarily losing its initial value. Certainly, knowledge evolves and must be kept up to date but this usually involves investments of time more than investments of money. And the ability, conferred by knowledge assets, to manufacture a product once and then sell it perhaps hundreds or thousands of times creates the potential for previously unheard-of returns on those initial modest investments.

In other words, microbusinesses tend to launch with products and services that are born scalable. They grow their revenues by pursuing ever-increasing sales volume while keeping production costs as close to fixed as possible. Those that make tangible products don't usually invest in capital equipment; rather, they design their goods, retain the intellectual property rights where applicable, and outsource or license production. Service providers and knowledge-based producers grow their revenues by becoming "platform sellers," who leverage their skills into various income generating activities such as consulting, publishing and public speaking. All these microbusinesses tend to keep their own regulatory burdens as low as possible by avoiding business activities that are subject to regulatory oversight (often substituting the adoption of professional standards for government supervision wherever possible as a means of quality control), in the same way that they avoid other time-eating administrative juggernauts. With low, stable manufacturing costs that do not increase with increased sales volume, combined with frugally efficient operations, microbusiness are capable of realizing almost exponential revenue growth as their market share increases.

From this description, is should be evident that microbusinesses, as a group, have not yet scratched the surface of their earnings potential. And, because of the differences in the way they operate (as well as the differences in their motives for starting a business to begin with), growth in the microbusiness sector will inevitably follow different patterns and be subject to different challenges than that of the more traditional non-micro small business sector. Similarly, these very small firms have different policy needs and their growth potential demands that those needs be understood so that the obstacles to that growth can be addressed.

Obstacles to microbusiness growth

As we have seen, microbusinesses are organized and operated in such a way as to make incredible revenue growth possible with minimal investment. Whether any one of them realizes that potential depends, in part, on the personal ambitions of the individual business owner but it also depends, in part, on creating a climate in which microbusinesses can flourish.

As of this writing, the top issue for all small businesses is the affordable health insurance issue but that topic will not be addressed here. Rather, there are a number of longer-term, specific issues that impede microbusiness revenue growth. Some of those issues may ultimately be addressed with market-based solutions but some need the particular attention of elected officials.

Financial and accounting sectors are not currently able to accommodate non-tangible assets in determining value. A rather intriguing theory about the economy into which the world is transitioning has been articulated by the Athena Alliance, a non-partisan think tank. They posit that the value drivers of the coming age will be a combination of Information, Intangibles and Innovation, or the I-Cubed Economy[4]. This is an important concept for anyone who needs to understand how microbusinesses contribute to the economy.

Microbusinesses often enter established industries and add value to well-established product types by developing innovative ways to produce and distribute their products and/or to service their customers, which allow them to be competitive in mature industries without the need to invest a lot of resources (which they often don't have) into infrastructure. They also are prone to select product offerings that they can produce primarily using what they know or know how to do, which allows them to offer products for sale that cost them little more than their time to manufacture once and almost nothing at all to reproduce.

Much of the value in these kinds of microbusinesses lies in both formal intellectual property (trademarks, patents, copyrights) and informal intellectual property (such as non-patented business processes, area expertise and "know-how"). Current accounting practice

[4]See, for example, "Building on Local Information Assets" by Kenan Patrick Jarboe, in *Rural Matters,* Summer 2004. Retrieved from http://www.athenaalliance.org.

standards cannot place a dollar value on these assets, making it difficult for microbusiness owners to raise money, to place their firms on the market for a price that approximates their true value, or even to fully understand and appreciate their own net worth[5]. Clearly, these sectors will need to update their methodologies in order to accurately assess the value of information assets. In no other way can economists reach a more realistic measure of the Knowledge Economy Gross Domestic Product (GDP) or of the contributions of these innovative microbusinesses to the Knowledge Economy GDP.

Equity and debt capital sectors must update their understanding of business models and recognize that earnings potential is no longer dictated by organization size or tangible assets. One of the most difficult obstacles to revenue growth for microbusinesses is their difficulty in gaining access to capital. Industry standard underwriting methods and federal regulations combine to disallow the use of intellectual property as collateral, while the entire value of many of these businesses consists of either formal intellectual property or innovative business practices and business models. Yet, for many of them, the only obstacle to realizing the potential revenue growth of the business is the lack of working capital that would allow them to increase their reach through marketing, promotion, additional distribution systems and other such promotional expenses.

Financing for microbusinesses will probably not result in the kind of job growth with which Washington is familiar. Rather, it will result in added revenue for another microbusiness and, as often as not, the circulation of new money in a completely different local economy. When microbusinesses hire other microbusinesses, they do provide work for their self-employed peers, thus contributing to maintaining low unemployment in a fashion that is completely valid even if it is not yet measured as a part of the jobs growth picture. Thus, the standard justification for promoting small business financing as a means of creating jobs is every bit as legitimate for a non-employer microbusiness as it is for larger non-micro small businesses.

Both bankers and investors must step back from their paradigms about business growth in

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[5]See, also, *Reporting Intangibles: A Hard Look at Improving Business Information in the U.S.* by Kenan Patrick Jarobe (Athena Alliance: April 2005). Retrieved from http://www.athenaalliance.org.

order to better understand the potential of microbusinesses. Again, improvements in assessing the value of intangible assets will greatly help improve the ability of microbusinesses to acquire financing. In light of the above discussion of the micro way of growth, it should be clear that many microbusinesses have the potential to be very good investments that would provide very good returns. However, for as long as the banking and investment community persists in viewing a business as the sum of its real and tangible property parts, and refuse to see that revenue growth without organizational growth has become not only possible but optimal, they will dismiss microbusiness investments as unattractive and unjustified.

Business management training professionals also need to update their business models. In my capacity as publisher and editor of The MicroEnterprise Journal, I often hear from microbusiness owners who know they need management training but have trouble getting it, primarily because those they approach want to push them toward that traditional growth paths that entails debt financing, the hiring of employees, and rental or purchase of commercial space.

For example, there was “Cindy,” who contacted me by email in 2002. She wrote:

> *I often think that I could have benefited* (sic) *from their advice, or been pointed in the direction of resources I could use, had I actually gotten any two-way communication going from them. There were probably experienced brains I could have picked and at the very least networking contacts to be made. Instead I just sat in the back bedroom puzzling the whole operation out myself.*

Cindy ended up going out of business. “I have always wondered what might have happened if I would have gotten a critical boost at the right time that would have led me down a different path,” she wrote.

Service providers in organizations such as the Small Business Development Center network, the Women’s Business Centers, SCORE and the SBA itself must also retool their thinking about how businesses grow. These organizations are staffed by a great many professionals with substantial experience and education with respect to business management. At the same time, however, they cannot be so wholly wedded to their knowledge about how businesses *used to* operate as to be closed to the possibility that a microbusiness can successfully do things differently.

When the counselors connected with these organizations talk knowledgeably about how one manages a business and what is needed for growth, many of them still assume their small business clients need to pursue scale as small business owners did half a century ago. As the story above painfully illustrates, these professionals need to be willing to meet the microbusiness owner at his or her own reality. If the service provider is unwilling to consider the merits of an alternative operational method or a growth innovation, they are not as likely to teach the microbusiness owner how to do it “right” so much as they are likely to inspire that microbusiness owner never to darken their doorstep again. This is not a result that would be in anyone’s best interest. Microbusiness owners need the support of these business management training resources but they also need to have their own new or different business models and methods treated with respect.

Opening the federal marketplace to microbusinesses will require facilitating coalition-building to expand capacity. Among microbusiness owners, selling to the government is not a common priority. Even for smaller government purchases, there are few microbusiness owners who would want to take the time and trouble of pursuing federal contracts. Among the few microbusiness owners who have handled government purchases, the most common response to the experience this writer has heard has been, “I’ll never do that again!”

There is very little about the process of selling to the federal government that is microbusiness friendly. The paperwork is legion. The delivery specs may require the microbusiness owner to discard the operational efficiencies they have developed, making the order more difficult, less efficiently fulfilled and less cost-effective for the microbusiness owner. Then, too, the federal government is a notoriously slow payer, or certainly has that reputation among microbusiness owners, and most micros are not willing to wait months and months for their time and trouble to be compensated. At least for many in the current generation of microbusiness owners, the rewards are not worth the effort.

If current trends continue, it is difficult to see how the government will ever meet its 23% small business procurement goal when they make it so difficult for 90% of the nation’s businesses to compete. And while the number of microbusinesses is growing, the middle — that is, non-micro small businesses — is thinning. In considering this conundrum, it is worth noting that the twin goals of keeping federal spending within reasonable limits while creating bidding opportunities for microbusinesses and small businesses through unbundled contracts seem to be contradictory. On the other hand, the cost savings of dealing with microbusinesses — which, given the efficiencies inherent in microbusiness operation, would likely be substantial — may adequately compensate for the perceived loss incurred by unbundling federal contracts.

Another strategy for including microbusinesses in the federal marketplace, which will be particularly helpful if procurement offices find it impossible to simplify the bidding and contracting process sufficiently to entice more microbusinesses to participate, will be to facilitate the formation of microbusiness coalitions with a combined capacity to handle the various administrative and production requirements of a federal contract. Currently, there are some organizations doing this kind of work with a certain modest amount of success. The U.S. Small Business Administration would do well to consider emulating those organizations or partnering with them to better help interested microbusinesses compete for those contracts.

Legislators need more and better exposure to microbusiness owners in order to improve their understanding of how these firms operate and how policy initiative will or will not impact them. In spite of the fact that the vast, vast majority of the nation's small businesses are microbusinesses, incredibly, it almost never happens that a microbusiness owner is invited to testify before either the House or the Senate Small Business Committee, let alone any of the various other Congressional Committees that examine issues of importance to microbusinesses.

It seems likely that the reason for this is that the small business lobbying organizations that most commonly supply witnesses for those hearings do not number many microbusinesses among their members. In addition, the microbusiness members these organizations do have are not typical and are chosen (when they are chosen at all) more for their partisan philosophy than for their big-picture grasp of policy impacts microbusinesses as a group.

Then, too, there seem to be many people on Capitol Hill who believe that anything they might hear from a non-employer business earning average annual revenues of $50,000 will not be much different from what they hear from a 87 employee business earning average annual revenues of $25 million. Verbalized in this way, the concept might appear completely absurd but it does exist. Another similar idea is that anything policy makers do that would help the non-micro small business will certainly be helpful for micros as well. Unfortunately, that simply is not true.

A good example of this sort of thing is the Section 179 expensing increase passed as a part of President Bush's tax cut packages of 2001 and 2003. Allowing small businesses to deduct up to $100,000 of their capital expenditures annually was hailed as a great victory for small businesses, and it was certainly a very good deal for non-micro small businesses. However, one is reminded that non-micro small businesses comprise less than 10% of all small businesses and their numbers seem to be shrinking every year. Meanwhile, the 90% of small businesses that are microbusinesses almost never reached the original $25,000 expensing ceiling to begin with. If one measures the success of that tax legislation by the proportion of small businesses that benefitted from it, one is forced to consider it a complete failure.

Another oft-repeated refrain heard in Washington is that Congress would like to hear from microbusiness owners but they don't know where to find them. This is rather surprising; granted, Capitol Hill staffers are a busy set of people but it seems they overestimate the difficulty. To begin with, almost everywhere you go, you'll find microbusinesses. They are ubiquitous, they are almost every business in the country. In addition, there are countless communities of microbusiness owners on the Internet; a casual cruise of some of the email lists in Yahoo! Groups under the "Business" category would undoubtedly yield thousands of them.

This is perhaps a bit out-of-the-box thinking for some in our nation's capital, who are not used to have to hunt for citizens to perform this service. It is, I expect, much easier for those staffers to simply pick up a telephone and ask the National Federation of Independent Businesses or Women Impacting Public Policy to send a witness. But it is important for them to make the effort. It is nonsensical that the members of Congress serving on those two Committees should be attempting to "create an environment in which small business can flourish" while knowing almost nothing about how 90% of them operate. That would be a bit like a doctor who tried to remove an appendix when he had never learned what an appendix looks like.

This is not a set of magic bullets. As the Knowledge Economy evolves, additional issues will make themselves felt as further challenges to microbusiness growth potential. However, addressing the above issues will do a great deal to improve the ability of microbusinesses to reach that potential. The result will be good for the microbusinesses, good for the government and good for the country as a whole.

About the author

What if you heard of a woman who grew up in a public housing project in Philadelphia, surrounded by teen mothers and gang violence, herself the product of a single-parent family dependent on welfare?

What if you heard about another woman, who enjoyed all the privileges of an exclusive finishing school followed by an Ivy League university and an exciting career, first in law and then in journalism?

What if I told you that both of those women are Dawn Rivers Baker?

Dawn Rivers Baker is the President and CEO of Wahmpreneur Publishing, Inc., and the Editor/Publisher of The MicroEnterprise Journal (http://www.microenterprisejournal.com). Her professional memberships include the Online News Association, the International Council of Online Professionals, and Women Impacting Public Policy. She is also the founder and chair of the Microbusiness Research Institute, a not-for-profit research organization dedicated to documenting the demographics and the economic and policy needs of the more than 20 million microbusinesses in the U.S.

The Syracuse (NY) District of the U.S. Small Business Administration named Ms. Baker their 2003 Small Business Journalist of the Year, and she has been selected for annual inclusion in Marquis' *Who's Who in America®* and *Who's Who of American Women®*. She the exclusive provider of small business news for the Business Owners' Idea Cafe, and she has been quote such publications as *CBS Marketwatch*, the *Gotham Gazette*, *InfoWeek*, and Entrepreneur’s *Be Your Own Boss* magazine.

Ms. Baker is intimately acquainted with both the heights and the depths of human endeavor as a result of a life that spans just about every socio-economic lifestyle available in this varied country. She rose out of poverty through education, earning an *A Better Chance* (ABC) scholarship that sent her to Foxcroft School in Middleburg, Virginia. From there, she attended Princeton and Columbia Universities, and went on to work in legal administration for The Atlantic Recording Corporation and for premier Manhattan-based law firm Rosenman & Colin.

Ms. Baker currently lives in the Catskill Mountains in New York State with her husband of more than 20 years and their four children. In her not-quite-spare time, she serves as Parent Member of the Committee on Special Education for her local school district.

With a widely varied background that allows her to view the microbusiness phenomenon in the United States from many different perspectives, Dawn Rivers Baker brings insight and dedication to her reporting for microbusinesses all across America.