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Employment Research

FALL 1997

The Role of Small Business

◆
1997 Dissertation
Award Winners

◆
School-to-Work

◆
New Books

Vol. 4, No. 2

Employment Research is published twice a year by the W. E. Upjohn Institute for Employment Research, a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W. E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W. E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Executive Director

George A. Erickcek

The Role of Small Business A Tale of Two Cities

Economic researchers and policy makers have debated the importance of small business to an area's economic health for nearly two decades. Findings from two recent W. E. Upjohn Institute research studies in Cleveland,¹ and in Kalamazoo, Michigan, provide new evidence on the role of small businesses in local economies and offer a more complete demographic profile of small-business owners. These two studies show that small-business owners in these two different areas share similar characteristics, face similar obstacles, but differ slightly in their opinions of what small-business assistance programs would be the most beneficial. Furthermore, the studies suggest that the economic development effect of small business may have been overemphasized in earlier studies. The findings further suggest that small-business development strategies may offer a more useful avenue for neighborhood/community development.

The two studies examined the role of small business in these two very different metropolitan statistical areas (MSAs) by using a special employment tabulation from the U.S. Census Bureau for the 1989 to 1992 period, data from the Public Use Microdata Sample (PUMS) from the 1990 Census, one-on-one interviews, and

similar questionnaires mailed to existing businesses employing fewer than 100 workers.

Trends in Job Creation in Small Businesses

Jobs are created through new business openings and expansions of existing establishments and are lost through closures and contractions. In both studies, these four components of employment growth in very small establishments (those employing 20 or fewer workers) were compared to those in a similar group of MSAs. Cleveland was compared with 9 other large metropolitan areas, and the smaller Kalamazoo-Battle Creek MSA was compared with 23 similar MSAs.

Employment growth among small establishments in both the Cleveland and Kalamazoo-Battle Creek MSAs ranked both areas in the middle of their comparison groups. One of the more interesting observations from these studies is that the major difference between metropolitan areas with a fast-growing small-business sector and those with a stagnant small-business sector is the employment growth due to start-ups and expansions. As can be seen in Table 1, small businesses in Minneapolis and

(continued on p. 3)

From the Executive Director

The Grant Program is an integral component of the Institute's research agenda. It leverages our resources and capabilities to address important policy issues, and it provides an opportunity for the staff to learn about the various issues that researchers find important. Each year we receive about 75 pre-proposals on a variety of topics related to employment policy.

Two years ago we redesigned the grant selection procedure with two purposes in mind. First, we wanted to streamline the procedure in order to reduce the burden on applicants. In the past we had asked each applicant to submit a full 15-page proposal. Now, we ask for an initial three-page summary of the proposed research. The selection committee then invites about a dozen researchers to submit full proposals, and funds about half. Because the two-part procedure takes more time than the single submission, we have only one grant cycle each year instead of two.

Second, we wanted the research to be more focused, without dictating the research agenda. Striking the right balance between being a passive and active participant in the grant process is difficult. We wanted to be able to develop research around specific areas that we and others find important, while remaining open to new ideas. During the last two grant rounds, we gave higher priorities to topics related to employment relationships, low wages and public policy, and decentralization of government-sponsored employment programs. We also accepted and funded proposals that addressed a broader range of employment issues.

The topics that we emphasize result from our annual planning process. Each fall, we begin this process by convening the Institute's Research Advisory Group. The group is comprised of prominent researchers and policy analysts from universities, research organizations, government agencies, and foundations.

During a day-long meeting, members share their perspectives on issues that they believe are important now and in the near future. It was a recommendation of the advisory group that led us to revamp the grant program. The senior staff considers these suggestions at a planning retreat and develops a research agenda that provides a framework for Institute research and for the grant program.

During the last two years, we have funded research that addresses the three focus areas as well as other important policy issues. Three grants concentrate directly on low-wage labor markets. Sherrie Kossoudji (University of Michigan) is investigating post-welfare employment in the city of Detroit. By focusing intensively on one city, she is able to address issues such as the variety of work opportunities in neighborhoods, the impact of the neighborhood environment on job prospects, and the ability to tailor training programs to the needs and opportunities of inner city residents. Another grant focuses on the likelihood of welfare recipients finding jobs in New York City. Through a survey of 5,000 AFDC recipients, Anne Hill (Baruch College) compares the relative effectiveness of different public and private programs of placing welfare recipients into jobs. Mary Corcoran (University of Michigan) extends the issue of low-wage policy to look at trends in women's employment outcomes and wage growth among African Americans, Mexican Americans, mainland Puerto Ricans, and non-Hispanic whites.

Several studies focus on employment relationships. A group headed by John Turner (U.S. Department of Labor) is exploring whether U.S. and Canadian workers are bearing greater financial risk related to employment because of the increase in contingent workforces and changes in health insurance coverage, pensions, social security, and workers' compensation. Barbara Morgan (Florida

State University) uses a unique data set to analyze the determinants of return to work among employees who file claims for workers' compensation in Florida. Thomas Saving (Texas A&M University) investigates alternative means of financing and structuring the Medicare program. The aging of the baby boomers has placed many pay-as-you-go social assistance programs in financial jeopardy, and Dr. Saving examines in detail labor market and other implications of recently proposed fully funded options.

Two projects examine the efficacy of local economic development incentives. Alan Peters and Peter Fisher (University of Iowa) are evaluating the effectiveness of enterprise zones in creating jobs for economically depressed areas of local communities. John Anderson (University of Nebraska) and Robert Wassmer (California State University) use the 112 municipalities in the Detroit area as a rich laboratory to investigate the adoption, use, and effectiveness of local incentives in promoting growth in those communities.

Lori Kletzer (University of California, Santa Cruz) extends the Institute's previous research on job displacement to provide a detailed examination of the relationship between changes in international trade and job displacement among U.S. manufacturing workers. Julian Betts (University of California, San Diego) traces the linkage from school resources to student achievement to labor market outcomes in looking at the issue of whether money matters in improving school effectiveness.

Promoting high-quality and pertinent research such as the projects described above and placing the results in the hands of researchers and policy makers is one goal of the Institute. We are pleased with the response to our Grant Program and with the publications that result directly from the funded projects. We encourage you to consider submitting a proposal. The next round begins in January, and more information is available on our web site (www.upjohninst.org).

Randall W. Eberts

Table 1. Components of Employment Change in Small Business^a
(% of 1989 base)

Metropolitan Area	Start-ups	Closures	Expansions	Contractions	Total
Minneapolis (lg)	52.7	-19.5	34.3	-13.2	54.3
Beaumont-Port Arthur, TX (sm)	54.8	-29.4	47.9	-12.2	70.1
Cleveland	39.4	-16.6	30.0	-14.1	38.7
Kalamazoo	37.4	-17.0	35.6	-12.5	43.5
Detroit (lg)	40.8	-19.9	29.2	-15.0	35.1
Springfield, MA (sm)	27.3	-18.8	20.5	-18.3	10.7

SOURCE: U.S. Census special tabulation.

a. Small business = employing fewer than 20 workers.

(lg) = MSA used in the Cleveland study; (sm) = MSA used in the Kalamazoo study.

The Role of Small Business: A Tale of Two Cities

(Continued from page 1)

Beaumont-Port Arthur, Texas, enjoyed much greater employment growth due to start-ups than those in the slower-growing areas but had approximately the same percentage loss of employment due to closures and contractions. Employment losses in the small-business sector because of closures and contractions are fairly uniform between the faster- and slower-growing MSAs.

These results, which are confirmed in other studies, suggest that it may be more fruitful to create an environment encouraging small-business start-ups and expansions than to allocate resources to retention efforts (i.e., preventing struggling businesses from failing). The former would encourage entrepreneurs seeking to explore new markets and to provide better services, while the latter could result in scarce economic development resources being (mis)used in supporting the continued production of obsolete products or uncompetitive services.

Characteristics of Small-Business Owners

Similar questionnaires were mailed to small-business owners (employing fewer than 100 workers) in the greater

Cleveland area and in Kalamazoo County. Cleveland-area small businesses returned 590 usable surveys (a 24.6 percent response rate), while in Kalamazoo County, small businesses mailed back 763 usable surveys (a strong 43.0 percent response rate). These survey results, in addition to data acquired from the 1990 PUMS, suggest the following.

- **Small businesses account for only a minor share of an area's economic base.** Areas grow principally through the expansion of their economic base, which is composed of businesses that sell their goods or services to customers outside the region. In general, small businesses serve local customers and thus represent a small share of an area's economic base.² In Kalamazoo County, 74 percent of the surveyed small businesses had a market area no larger than the county's limits. In the Cleveland area, 63 percent of the surveyed firms sold to customers in the multi-county northeast Ohio region. While small-business start-ups and expansions may provide useful services to area customers, their overall economic impact is partially offset by the resulting employment reductions at the area's enterprises that lost market share.
- **Most small businesses start small and stay small.** For many entrepreneurs, job satisfaction and having an independent lifestyle are the overriding objectives of owning their own

business. For these individuals, expansion is not their major objective. In Kalamazoo County, the fastest-growing 5 percent of the small firms surveyed accounted for more than the total employment growth that occurred in the survey sample from 1993 to 1996. In Cleveland, the top 5 percent accounted for 50.2 percent of employment growth recorded during the same time period. Moreover, successful small businesses are found across all industries in both areas.

- **Small business owners are better educated and have experience in the industry.** In both MSAs, small business ownership is an employment opportunity typically taken by experienced, well-educated workers in their middle-to-late thirties who are long-term residents of their community.

Based on the PUMS data from the 1990 Census, an estimated 48.6 percent of the self-employed workers in Kalamazoo have earned a bachelor's degree or higher, compared with only 23.6 percent of the area's wage and salary workers. In the Cleveland MSA, 30.8 percent of the self-employed and 22.1 percent of the area's wage and salary workers have earned a bachelor's degree or higher. The Institute's mail survey yielded similar findings, with 52.6 percent of the Cleveland MSA's small-business owners and 51.8 percent of the Kalamazoo County small-business owners having obtained a bachelor's degree or higher.

In the Cleveland area, 86.4 percent of the surveyed small-business owners had prior experience in the industry of their business. In Kalamazoo County, 74.3 percent of the owners surveyed had such experience. Moreover, 44.5 percent of the surveyed owners in Cleveland and 40.9 percent in Kalamazoo County reported having previous management experience.

Finally, the average age of the surveyed Cleveland area small-business owners at the time that they started their business was 36 years, and as of the survey date, they had resided in the Cleveland area for an average of 41 years.

Similar findings were reported in the Kalamazoo study.

Barriers and Solutions

Finding acceptable financing, developing a customer base, finding qualified workers, and dealing with government regulations are the major barriers facing individuals wanting to start a business, according to our survey of small-business owners in the two MSAs (Table 2). However, more than two-thirds of the small-business owners surveyed in both areas indicated that they did not face any major barriers when starting their business. In financing the start-up of their small business, 66.1 percent of the surveyed owners in Cleveland and 51.8 percent in Kalamazoo used their personal savings.

Small-business owners in the two MSAs did not agree about what business assistance programs would be the most beneficial for new small-business owners (Table 3). A market-rate loan program with lower than standard commercial-

bank collateral requirements earned the strongest response in Kalamazoo and was a close second in the Cleveland area. Small-business owners in Cleveland listed a below-market-rate loan program with standard collateral requirements as first by a hair. In the smaller Kalamazoo County area, assistance in developing a business plan was the second most beneficial program.

Accompanying the mail surveys, interviews of small-business owners, individuals striving to start their own business, and owners of failed small businesses were conducted in both areas. The common themes heard during these one-on-one interviews were that a focused and well-researched business plan is vital for the success of a business endeavor and that the stress of running a small business exceeded expectations. In many instances, the telling difference between a successful and an unsuccessful entrepreneur was the understanding that following an effective marketing strategy is just as important as producing a good product or service. Too many

entrepreneurs focus solely on their product or service and shirk their marketing duties. These comments suggest that business planning assistance and the provision of business mentors/counselors are services that could be highly beneficial to many individuals wanting to start a business.

In summary, the overall regional economic impact of small business may be small due to 1) the displacement impact of start-ups or expansions on other less-competitive area firms and 2) the fact that most small businesses stay small. Still, the neighborhood impact of a new dry cleaner, car wash, restaurant, or print shop can be very positive. For example, the community and social impacts of a new grocery store moving into an abandoned site in an inner-city neighborhood may more than offset the resulting loss of employment and business at an existing store located outside the neighborhood. In such instances, small-business assistance may be an effective community development tool, while having little to no impact on the larger economy of the area.

Table 2. Major Barriers Facing New Small-Business Owners
(% responding)

Barrier	Cleveland Survey	Kalamazoo Survey
Finding acceptable financing	20.6	23.5
Developing a customer base	12.7	30.5
Finding qualified workers	22.3	27.7
Government regulations	13.6	16.0

Table 3. Most Beneficial Programs
(% responding)

Program	Cleveland	Kalamazoo
Below-market loan with std. collateral requirements	31.7	27.1
Market-rate loan with lower-than-std. collateral requirements	30.5	44.5
Seminars on key issues/topics	15.5	33.0
Buyer-seller linkage programs	16.7	27.6
Assistance in developing a business plan	14.3	37.0

NOTES

1. The Cleveland study was completed in association with the Greater Cleveland Growth Association, the Federal Reserve Bank of Cleveland, the U.S. Small Business Administration, and the Council of Smaller Enterprises.

2. It is true that areas can also expand when local firms provide goods and services that were formerly shipped into the area. However, since most of an area's imports are goods or services that simply cannot be efficiently produced in the local area, import substitution opportunities are limited.

George A. Erickcek is a senior regional analyst at the Upjohn Institute.

1997 DISSERTATION AWARD WINNERS

The W. E. Upjohn Institute is pleased to announce that the winner of its 1997 annual Dissertation Award is Kenneth Y. Chay of Princeton University, for "An Empirical Analysis of Black Economic Progress over Time." Mr. Chay's dissertation advisor was David Card.

Two Honorable Mention Awards were also selected. They are Sandra E. Black of Harvard University, for "The Valuation of Human Capital: A Study of Education and Training," dissertation advisor, Lawrence Katz; and Carole Roan Gresenz of Brown University, for "The Role of AFDC Benefits in Location Choice," dissertation advisor, Robert Moffitt.

Kenneth Chay's dissertation addresses the effect of affirmative action and shows large shifts in employment and pay practices among industries most affected by the expansion of the Equal Opportunity Act in 1972. He also shows that Title VII of the Civil Rights Act of 1964, which outlawed workplace discrimination, improved the relative status of blacks, especially among younger men in the South.

Sandra Black's thesis focuses on the effects of school quality on housing values. Using detailed information about school district boundaries in Massachusetts, she documents that people are willing to pay higher house prices to live in districts with better schools. Carole Roan Gresenz finds that AFDC benefits have little influence on the location of welfare recipients, a key issue facing the devolution of welfare programs to states.

Kevin M. Hollenbeck

School-to-Work Promise and Effectiveness

The 1994 School-to-Work Opportunities Act (STWOA) has stimulated educational initiatives that are intended to improve two important outcomes for youth: learning and successful career entry. Since the passage of the STWOA, states and localities have been piecing together initiatives that adhere to broad school-to-work (STW) concepts for learning and career development and are tailored to local strengths, resources, and needs. We are beginning to look at data from national and state sources that reflect the early impact and effectiveness of STW activities.

The Promise: Intent of the STWOA

The STWOA provides funds for activities that are classified as work-based learning, school-based learning, or connecting activities. *Work-based learning activities* use the context of the workplace to facilitate learning and retention of skills and knowledge. *School-based learning components* are intended to better prepare youth for successful careers: career awareness and exploration activities for elementary and middle-school students, rigorous programs of instruction that integrate academic and vocational learning, and career pathways that lead through appropriate secondary course work and that facilitate entry into additional training or postsecondary education. *Connecting activities* are infrastructural investments that bring together employers and students.

On the surface, it appears as though the sole intent of the STWOA is to promote career preparation. The school-based learning components are targeted on career awareness, exploration, and preparation, and the work-based learning components provide firsthand views of

work. In fact, an explicit stipulation of the STWOA is that work-based learning experiences must introduce students to all aspects of the industry, the rationale being that career choices will be better informed if students participate or observe workers in many different occupations. Yet deeper analysis suggests that, while career preparation is an important objective of the legislation, the STWOA has at least three other purposes.

First, there is a pedagogical goal. Work-based learning is a teaching method that presents students with "real world" application of concepts. Retention and understanding are promoted through hands-on instruction in an immediate context. Proponents of STW cite research by cognitive psychologists suggesting that most learners fare better with a contextualized, hands-on teaching approach than with the traditional lecture and textbook approach. Note, however, that this pedagogical benefit occurs only if the work-based learning experience is well coordinated with the classroom.

Second, the STWOA fosters collaboration between education and employers. In many states, governance of STW initiatives involves councils or boards that must be numerically dominated by private-sector employers. Work-based learning activities must be developed jointly by educators and employers. Furthermore, an entire class of fundable activities, the connecting activities, involves collaboration.

Third, it may be argued that the STWOA is intended to be a catalyst in restructuring education. The Act promotes the development and use of a curriculum that integrates vocational and academic skills. Some districts are finding that broad career clusters are a natural

mechanism for achieving that integration. Furthermore, STW concepts begin to depart from schools' traditional physical locations and use of time. Work-based learning takes place off site and relies on workplace mentors for instructional support. Emphases on certification and national skills standards move toward using whatever time is necessary to achieve skill competencies rather than fixed amounts of time that may or may not be sufficient to achieve competence.

In short, the promise of school-to-work activities lie in the following benefits:

- Enhanced career preparation of youth
- Enhanced learning through hands-on, contextualized instruction
- Increased collaboration between education and employers
- Restructured curricula

Delivery: Early Implementation Falls Short of the Promise

This article draws on three sources. The STWOA requires the National School-to-Work Office to undertake a national evaluation and to maintain a national performance measurement system, called the Progress Measures Chart. Both of these functions are being conducted by outside research organizations, and early publications are from Hershey et al. (1997) and Medrich et al. (1996). States that have received funding are also conducting evaluations. The third source is Hollenbeck et al. (1997), a report documenting the Upjohn Institute's evaluation of STW initiatives in Michigan.

Four observations summarize what has been learned to date. First, individual states are taking quite different approaches in their implementation. Some states are focusing on one or a few specific activities; for example, Wisconsin has emphasized youth apprenticeships. Other states are following a less-targeted approach: Michigan is following a highly decentralized model that funds activities designed and proposed by local partnerships within the general framework of the STWOA. Still other states have used STW funds to leverage broad educational restructuring. Oregon is generally acknowledged to have the most

ambitious restructuring, adopting statewide certificates of initial and advanced mastery, for example.

The second observation is that the progress made by local programs in implementing STW concepts has been concentrated in career awareness activities such as job-shadowing. Career exploration and guidance have existed in middle and secondary schools for many years, but evidence suggests that the STW movement has greatly broadened the number of students engaged in and the time spent on career exploration, awareness, and preparation. Over two-thirds of U.S. high schools offer a job-shadowing or mentoring program. The Upjohn Institute evaluation has confirmed the extensive amount of time and energy being invested in job-shadowing experiences and job fairs. The "flipside" to this emphasis on career activities is that work-based learning and curriculum restructuring efforts are not occurring widely. In a few instances, localities are undertaking major initiatives that show promise, but all in all, we can describe the educational reform attributable to STW to date as marginal at best.

Of course, change for the sake of change should not be the goal. This brings me to the third observation, the importance of the quality dimension of STW programs and the extent to which it varies. Hamilton and Hamilton (1997) point out that work-based learning can be seriously mishandled without appropriate attention to detail. Appropriate learning objectives, sequencing, assessment, and coordination with classroom activities all require careful planning and execution, for example. These authors state, "Simply placing young people in workplaces does not guarantee that they will learn" (p. 682). Career exploration activities such as job shadowing also require structure and planning in order to be beneficial. Hollenbeck et al. (1997) report job-shadowing activities that ranged from unstructured "visits" to the workplace of a family friend or relative with no follow-up, to programs in which students conducted research about an occupation, prepared questions for a visit with an individual engaged in that occupation,

and wrote a short paper describing the experience.

The final observation is that achieving the promise of the STWOA requires leadership and investments in professional development. In our analyses of Michigan activities, there was virtually a one-to-one mapping between exemplary activities and an extraordinary administrator or teacher who believed in the vision of STW and was willing to take the risks necessary to achieve the full benefits. Furthermore, almost all individuals we interviewed strongly emphasized the need to offer professional development activities on subjects such as curriculum integration, youth development, and contextualized learning.

Sustainability: Will STW Initiatives Deliver Fully on the Promise?

The STWOA has been around for only a little over three years, so it is not surprising that it has not achieved its full potential. However, the Act is scheduled to terminate in 2001, so it has only about three more years to achieve its goals. What will be its legacy?

The STW movement has aroused controversy and political opposition. One controversy has arisen over the term "school-to-work" and over the assertion that STW should lead to "career majors for all students." For many parents and students, school-to-work connotes job training or vocational education and is perceived to be inconsistent with postsecondary education. However, the STWOA clearly addresses this concern by calling for school-based learning that is rigorous and that leads to career preparation pathways that include postsecondary education. STW program administrators are frustrated by the misperception and are actively marketing the potential of their initiatives to lead to college. Further, many STW initiatives have changed their name; the most common title now is "school-to-careers."

In a second controversy, opponents are concerned that, if STW is fully implemented, schools will track all students into a career choice at an early age and that too much instructional time will be invested in career preparation. The STWOA does

include language about "career majors" and about "all students." STW administrators indicate, however, that career majors are broad clusters of related occupations and that a hallmark of a good program is flexibility that allows students to move in and out of clusters as their interests change. Further, proponents note that the use of the phrase "all students" is to assure inclusivity: all students will have the opportunity to participate in STW activities if they so choose.

Beyond these issues, which are partly semantic but also partly philosophic, the question remains of the sustainability and promise of STW. Program performance data suggest that progress has been made, particularly in career development activities. However evidence also suggests that the sustainability of STW may hinge on instituting and maintaining quality standards for all activities and on adequate investment in leadership and professional development.

A glaring omission from the evidence to date is the effect of school-to-work on student achievement. The pedagogical and educational restructuring benefits of STW only have value if they favorably affect student achievement. Without solid analytical evidence, policy makers and parents will have to base decisions about the involvement of young people in STW activities on tradition and beliefs.

Kevin M. Hollenbeck is a senior economist at the Upjohn Institute.

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