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## Assessment of the Importance of Small Business to Kalamazoo County's Economy and the Adequacy of Services to Nurture Small Business Formation

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**I. Executive Summary**

**Role of Small Business**

Small businesses are a dynamic part of a community's economy. By most accounts, small establishments create a large share of a community's new jobs through startups and to a lesser extent through expansions. However, a large percentage of these businesses fail; half of the new startups are unlikely to survive past five years. Moreover, only a small percentage of establishments account for most of the employment growth.

Small businesses succeed and fail across a wide range of industries, and there is virtually no way to predict the winners. What is predictable is that new small businesses will most surely fail if their owners do not do their homework beforehand. Regardless of the industry or potential markets, most successful entrepreneurs complete a business/marketing plan, secure adequate funding, and are willing to give their **full** commitment to the business. A community which offers a support structure that provides the basics building tools for new small businesses will, most likely, gain higher returns from its investment, than one which attempts the impossible task of picking winners or even identifying "growth" sectors.

**Small businesses play a positive role in economic development; however, recent research suggests that its job creation abilities may be overemphasized.**

- The customer base for most small businesses is restricted to its local area, limiting their economic impact on the area's economy. The gains of one small business often come at the expense of existing area firms. Area customers may be better served and, equally important, the neighborhood of the new business may be enhanced, but the impact on the overall economy, on net, may be minimal.
- Most small businesses start small and stay small. Employment growth is not uniform across all establishments, but instead is concentrated among a small percentage of highly successful establishments.
- Small businesses, while offering a counter cyclical stabilizing force to local economies, are not the job generators that researchers had earlier reported. Recent research using better data and correcting for past mistakes suggests that in the long-run small

business's share of net new jobs is approximately in proportion to the total number of workers they employ. In addition, jobs at small businesses tend to have shorter durations and pay less than jobs at larger firms.

**At the same time, small business assistance can be an effective community development tool.** A successful small business sector can virtually change the face of a neighborhood, turning abandoned, unsafe buildings into neighborhood meeting places. Small business development can bring economic hope, community leadership, and employment opportunities to individuals living in neighborhoods suffering from high unemployment. While it is unrealistic to believe small business development, by itself, can bring new life into a neighborhood, it is certainly a necessary element.

### **Small Business in Kalamazoo County**

**A comparison analysis of the performance of the county's small business sector, relative to similar metropolitan areas nationwide, suggests that the county's economic environment is slightly better than average in terms of small business growth.** Small establishments employing fewer than twenty workers grew faster in the Kalamazoo-Battle Creek MSA than in a similar set of metropolitan areas, from 1989 to 1992. Employment gains due to births of small establishments in the Kalamazoo-Battle Creek MSA lagged behind that of the comparison group. On the other hand, employment growth due to expansion of existing establishments in the area was greater than the average for the comparison group.

#### **Small business owners in Kalamazoo County have the following characteristics:**

- Self-employed workers are more likely to be white, male, married and a householder than are wage and salary workers. African-Americans make up 8.0 percent of the county's self-employed. Males account for 60.7 percent of the county's self-employed compared to 48.6 percent of wage and salary workers.
- 76.2 percent of the surveyed business owners reported previous experience in their business's industry.
- 45.2 percent had previous experience as an owner or manager of another firm.
- 32.7 percent were laid off at least once by previous employers.
- 5.4 percent of the survey respondents revealed that they had been unsuccessful in starting a small business prior to their current operation.
- Surveyed small business owners achieved higher education levels than the wage and salary workers.

- Employment grew by 7.7 percent in the small businesses surveyed, compared to total employment increase of 4.2 percent in the Kalamazoo-Battle Creek MSA from 1993 to 1996.
- The top 5 percent of the surveyed firms ranked by employment growth accounted for over 100 percent of the surveyed firms' total employment growth.

### **Current Small Business Assistance Efforts**

**Kalamazoo County houses a wide selection of small business assistance providers, offering strong expertise in a variety of general and specialized fields. In addition, its banking community has shown a strong interest in facilitating the growth of business. Two potential limitations of the current system may exist, however:**

- Since each of the service providers generates its own marketing/information brochures, there may exist a duplication in mailings.
- It is not unusual for individuals to make three or four phone calls or visits before they reach the service provider that is right for their needs.

**The major obstacles facing small businesses in Kalamazoo County are identifying a customer base, finding acceptable financing, and dealing with personal stress.**

- **Identifying a customer base.** Entrepreneurs tend to focus too much of their attention on their product or service and not enough on building their customer base. However, this barrier may run deeper than entrepreneurs simply disliking selling and drumming up business. It may also reflect the lack of proper homework in the preparation of a business plan.
- **Small business financing.** Financing of small businesses is a problem for several reasons. First, it may stem again from a poorly prepared business plan that does not provide an adequate justification for why the business will succeed. Second, for many small businesses, the financing needs are so small that it is simply not economically feasible for a commercial bank to finance it because the returns will not even cover the fixed paper work costs. Finally, some entrepreneurs are unwilling to offer what banks believe is sufficient collateral for the loan. **The biggest concern, in our view, is that low-income entrepreneurs who have done their homework and present a good argument for the success of their business may be denied financing due to the size of the request.**
- **Personal Stress.** Starting a small business is extremely stressful and lonely. The marketplace can be harsh and demands a tough skin. A day of "no thank you" can shake the confidence of the most self-assertive individual.



## Recommendations

Based upon our research we offer the following recommendations to improve the current delivery of area small business assistance programs and to enhance the ability of entrepreneurs to succeed.

- **Strengthen marketing efforts of existing programs.** Our research suggests that the county's existing small business assistance programs could do a better job in advertising/marketing their services. We suggest that the following activities be considered:
- **A monthly or quarterly bulletin** that would announce all of the scheduled seminars and services offered by the individual organizations.
- **Develop a centralized business service information network** that allows multiple entry points by electronically linking the area's service providers. The center would not necessarily be an independent office or have a staff. Instead, it could be a dedicated phone line with a recorded message briefly describing available services and transferring area service organizations.
- **Promote the area's small business assistance services and small business opportunities, in general, through a publicity program.**
- **Establish a microenterprise loan program.** Research suggests that microenterprise loan programs promote entrepreneurship, self-employment, and small-scale business creation among individuals who lack access to credit via the formal banking system. In addition, by facilitating entrepreneurship they can help create needed role models in distressed neighborhoods.

We do not recommend, however, that the program be solely restricted to minority groups or entrepreneurs in distressed neighborhoods because we fear it would be stigmatizing. Instead, we suggest that small business assistance providers be given the financial support to conduct a special outreach effort to minorities and individuals living in distressed neighborhoods.

It is important that any microenterprise loan fund program contain a strong education and training component.

Finally, the cost structure of microenterprise funds suggests that financial self-sufficiency cannot be attained without either a sizeable capital endowment or operating subsidies that could be tied to operating performance. We suggest that public subsidies for a microenterprise loan program are warranted because of the potential community development benefits that would result.

When we started this research effort, we set out to determine if market failures and organizational deficiencies of the small business assistance organizations exist. We found that Kalamazoo County offers a good environment for individuals looking to start their own business. Starting a new business will never be an easy task and the burden of its success rests firmly on the shoulders of the entrepreneur. Nevertheless, Kalamazoo County offers a wide selection of small business assistance services, and their impact is partially reflected by the county's better-than-average performance relative to similar metropolitan areas.

We do not have a small business problem in Kalamazoo County. Instead, small business development offers an opportunity. By encouraging and assisting entrepreneurs and small businesses in distressed neighborhoods, we could make a positive impact on the county's economy as a whole, and even more so on the neighborhoods that need it the most .

## **II. Introduction**

"Those economies that provide the proper environment for [entrepreneurial firms] to appear and grow flourish; those that fail to provide such an environment languish." David Birch<sup>1</sup>

"But, development planners and policy makers who are betting mainly on achieving local or regional economic growth and development by targeting incentives, subsidies, variances, and other policies to the small firms are going to lose their bets." Bennett Harrison<sup>2</sup>

The health and performance of Kalamazoo County's small business sector are important to the well-being of its economy and to the vitality of its neighborhoods. Our nation's history abounds with instances where the ingenuity of entrepreneurs launched entire industries, creating thousands of jobs and transforming their communities from sleepy villages to robust urban centers. Detroit was the center of an entrepreneur-driven auto industry during the first thirty years of the century, while the San Francisco-San Jose and the Boston areas are the centers of an entrepreneur-propelled computer industry.

Community leaders in Kalamazoo County have long recognized the importance of small business in contributing to the growth of the region and enhancing the economic opportunities of local residents. The county houses several organizations that offer small business assistance and its banking community has been active in small business financing.

The Kalamazoo Foundation has played a supporting role in improving the county's environment for small businesses by offering to assist the funding of several development efforts. However, for various reasons, these projects were never carried through. Recently, the Foundation hosted several meetings with representatives from area governments, financial institutions, and economic development organizations. As a result of these meetings, it was decided that a study of the needs of small businesses, an inventory of the various services available, and a perspective on the importance of small business in Kalamazoo County would be beneficial in guiding the future course of the community's efforts.

The purpose of this report is to offer a better understanding of 1) the importance of small business to the Kalamazoo County economy, 2) the process of small business formation, and 3) the current system of services available to entrepreneurs. Finally, this report attempts to identify gaps in the current efforts in providing a nurturing climate for small business. In the following section, we review national research on the role of small business in economic development. We also offer a comparative analysis of Kalamazoo County with 23 other metropolitan areas of similar size and industrial composition. Finally, we offer a profile of the area's self-employed. In Section IV, we present an inventory of current services offered by the area small business assistance organizations. In Section V, we identify the strengths and weaknesses of Kalamazoo County regarding small businesses and entrepreneurs. Finally, in Section VI, we submit our conclusions and recommendations.

### **III. Small Business and Local Economic Development: National and Local Findings**

#### **Importance to Economic Development**

##### **National Findings**

During the past two decades, analysts have credited small businesses with creating most of the nation's new jobs. David Birch, in a much circulated working paper during the late 1970s and in his book, *Job Creation in America*, estimated that small firms employing fewer than twenty workers created 88 percent of all net new jobs from 1981 to 1985.<sup>3</sup> This finding portrayed small businesses as super job-creating machines, capable of generating several times as many jobs as its share of total employment. Birch's conclusions prompted many economic developers to re-examine the role of small business in the economic vitality of local economies.

Since Birch first reported his findings, researchers have closely scrutinized the role of small business in creating jobs. Recent studies have questioned the magnitude of the original estimates. For example, researchers at the Brookings Institution, after refining Birch's database, found that the contribution of small business to total job creation was only in proportion to the total number of workers they employ--around 28 percent of firms with less than 100 employees.<sup>4</sup> Current research, based on a Census database of manufacturing establishments, finds that large plants account for a proportionately larger share of new manufacturing jobs than what Birch found. Establishments employing 100 or more workers accounted for two-thirds of the jobs created. However, when all industries are considered, Census-based estimates are more in line with Birch's original estimates. As argued in a recent study of small business growth, interpretation of the findings can be misleading because firms move between size classifications as their business responds to temporary economic phenomenon.<sup>5</sup> Over the long-run, the contribution of small business to net job growth most likely is not much more than its employment share.

While the extent to which small business contributes to overall employment remains controversial, researchers generally agree on several characteristics of the job creation process with respect to small businesses. First, there is considerable churning within the small business sector. A proportionately large number of jobs are created from the opening of small businesses. At the same time, a proportionately large number of jobs are lost as many of these businesses go out of business.

The large volume of activity among small businesses can be seen by looking at the gross flows of jobs. Gross flows refer to the four components of net employment change: the creation of jobs from the opening of new establishments and the expansion of existing establishments, and the destruction of jobs from the closing of businesses and the contraction of existing establishments. Adding together these four components yields the net number of

jobs created, and dividing by the employment level in the base year expresses the change in percentage terms.

By looking at the gross flows at the national level, it is apparent that establishments of firms with twenty employees or less create significantly more jobs than their share of total employment, both from openings and expansions. Between 1989 and 1991, establishments affiliated with firms of twenty employees or less accounted for 34 percent of the total jobs created from births and 56 percent of the new jobs generated from expansions. At the same time, establishments in this size category also account for proportionately more job losses, 34 percent of total jobs from deaths and 23 percent of total jobs lost from contractions. Therefore, the small business sector, while creating a considerable number of new jobs, is quite volatile, with a high degree of job turnover. Research indicates that only 50 percent of all new firms survive their fifth birthday.<sup>6</sup>

Second, research suggests that births and expansions of businesses, in all size classifications, are key to regional employment growth. This statement may seem self-evident, but the issue here is whether the difference between a fast-growing region and a slow-growing region is due to higher job creation or lower job destruction. Analysts, starting with Birch, have found that the rate of job destruction is fairly uniform across regions, whereas the rate of job creation varies proportionately with net employment change. That is, what makes one region grow faster than another is its high rate of job creation, not its inordinately low rate of job destruction. Birch concluded that "virtually all of the variations in the growth from one place to another derive from differences in the rate at which lost jobs are replaced, and that replacements originate in the formation of new firms and the growth of existing firms."<sup>7</sup> These findings were supported by a study that examined the metalworking, machinery, electronic component, and motor vehicle industries from 1971 to 1979.<sup>8</sup> Moreover, a study of metropolitan employment growth comes to a similar conclusion:

The largest, most immediate component of change in local labor demand has been variation in the openings of new firms, rather than in the closings, expansions, or contractions. This stands in sharp contrast to the popular impression that regions decline primarily as a result of closings in declining industries, and stands as a warning to policy makers who focus primarily on the special requests of declining industries at the expense of appropriate general economic policies.<sup>9</sup>

While contributing significantly to job growth, small businesses do not contribute as much as large firms to regional economic development. The distinction made here is the ability of small business to stimulate additional growth in a region, in addition to generating jobs internal to their business. Export base industries stimulate local economic growth by selling products to markets outside their immediate area, thus bringing additional dollars into the community which are then circulated through local businesses. The primary export-base industry is manufacturing, although some services, such as health and business services, are selling increasingly to outside markets. Creation of an additional job in export-base businesses

can do much more to stimulate an economy than an additional job in nonexport-base industries. Industries not included in the export-base sector, such as services and retail stores, also contribute to a community's economic base by providing the businesses within which the outside dollars are circulated. Without a strong retail and service-sector base, these dollars would flow outside the region. Furthermore, these nonexport-base industries enhance a region's amenities, which in turn makes it easier to attract and retain businesses, particularly those hiring professionals.

Small businesses are not as prevalent in the export-base sector as they are in the non-export base sector. Small businesses with fewer than twenty employees, while comprising 63 percent of all manufacturing firms, account for only 7 percent of that industry's employment. Small businesses' share of manufacturing workers is well below the 20 percent share for all industries nationwide. In contrast, establishments affiliated with firms of 500 or more employees account for 62 percent of manufacturing employment. On the other hand, small businesses with fewer than twenty workers account for 24 percent of employment in the retail sector, which does not typically export goods or services outside the local community.

Third, researchers have found that small businesses, in general, have a counter cyclical stabilizing influence on their local economies. Researchers, using a longitudinal business database of the Cleveland area which allowed the tracking of employment change among individual firms, found that employment in small firms grew faster than larger firms during recessions and had a smaller share of the loss in employment during the recession.<sup>10</sup> These findings were replicated by other researchers in their examination of the Milwaukee metropolitan area. During the 1979-83 recessionary period, researchers found that only establishments with fewer than 20 employees created a net addition to employment in the area. In contrast, during the economic expansion between 1983 to 1987, establishments of all sizes including those with over 500 workers experienced a net gain in employment, and the largest absolute number of jobs was added by establishments with between 100 and 249 employees.<sup>11</sup>

The fourth, generally accepted characteristic of job creation is that employment growth among small firms is limited to a small percentage of firms. A researcher at the Dunn & Bradstreet Corporation found that among the 245,000 U.S. businesses that started up in 1985, the 735 fastest growing firms, or just 0.3 percent of all firms, accounted for 75 percent of the employment gains made by 1988.<sup>12</sup> Moreover, a study, which pooled data from two major surveys of firms between the ages of one to six years in Minnesota and Pennsylvania, found that in both states a small proportion of new firms were responsible for the major proportion of increases in jobs, sales and out-of-state exports. In both the Minnesota and Pennsylvania surveys, about 25 percent of new firms provided 75 percent of the jobs, 80 percent of sales, and 90 percent of the out-of-state exports.<sup>13</sup> In addition, high-growth new firms were found in all industries, except consumer services.

Fifth, most new businesses are started by established residents of the community. In the Minnesota and Pennsylvania surveys, not one of the surveys' combined 2,653 respondents revealed that he or she had moved to start a new firm. It was also found in the same study that

the major factors associated with higher regional birth rates were the presence of existing businesses, adults 25 to 45 years old, and adults with education attainment appropriate for the industry.

Sixth, self-employment provides only a modest opportunity for the unemployed. Less than one in ten of the respondents to the two surveys mentioned above said they had been unemployed before starting a business. On the other hand, in an evaluation of a discontinued pilot small business initiative program in Ohio directed toward displaced workers, researchers found evidence to the contrary. The program was successful in creating and maintaining a significant number of businesses, suggesting that it offered a viable employment generation option for some unemployed individuals.<sup>14</sup> Of the displaced workers who participated in the program, 44 percent had started a business when surveyed two and a half years later. Of these businesses, 77 percent were still operating. However, of the operating businesses, 41 percent employed no one beyond the original program's participant and 29 percent had only one employee in addition to the program's participants. Only two of the businesses employed more than ten individuals.

Seventh, Small businesses offer lower compensation than larger firms. One researcher found that after controlling for industry, age and other factors, small businesses pay lower wages, offer fewer benefits, and are less stable than larger firms. However, at the same time, small business employees feel that their jobs are more creative and interesting than in medium and large establishments and report significantly higher levels of job satisfaction.<sup>15</sup>

In 1990, the Industrial Technology Institute (ITI) in Ann Arbor Michigan released a major study that suggested that small manufacturers, in part, pay lower compensation to their workers because many are pursuing a dangerous low-cost strategy. Growth through underselling the competition is an excellent short-term strategy; nevertheless, it allows little resources for these companies to use to remain innovative or to keep current with new trends. ITI researchers worried that too many small- and medium-sized firms were trying to keep their costs low by cutting back on worker training and were not exploring new technologies.<sup>16</sup>

To conclude, the small business sector is highly active and volatile, creating a substantial number of new jobs but also destroying large number of jobs. Only a small percentage of the many startups account for most of the jobs created by the small-business sector. Jobs in small establishments pay less, offer fewer benefits, and are less stable, but appear to offer a high degree of job satisfaction. Also, small business owners are established residents of their community, and their business commitment enhances their community involvement and commitment.

## **Local Findings**

Available statistics in the West Michigan area mirror national findings. In Kalamazoo County, 83.7 percent of all business establishments employed fewer than twenty workers in 1993. As shown in Table 1, the concentration of small business establishments varies among

industries and at different times during the business cycle. Small establishments, employing fewer than twenty workers, account for 96.7 percent of the county's agricultural services, construction and for all of its non-classifiable establishments. In addition, employment change

Table 1  
Business Establishments  
Percent of Total Establishments  
Employing Less Than 20 Workers

	1979	1983	1989	1991	1993
Agriculture	97.1%	95.6%	97.2%	95.9%	96.7%
Mining	100.0%	100.0%	100.0%	80.0%	87.5%
Construction	92.0%	93.0%	90.0%	92.8%	93.1%
Manufacturing	57.6%	63.0%	59.8%	60.5%	58.5%
Trans. & Public Utilities	74.3%	79.7%	80.1%	79.4%	75.5%
Wholesale	79.9%	84.3%	81.2%	81.5%	81.5%
Retail	82.4%	83.7%	81.3%	81.4%	80.5%
Finance	92.2%	91.4%	87.3%	87.6%	88.9%
Services	89.8%	89.4%	86.8%	86.2%	86.3%
Non-classifiable	99.4%	100.0%	96.8%	97.0%	100.0%
Total	84.8%	86.3%	83.7%	83.9%	83.7%

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Source: U.S. Dept. of Commerce *County Business Patterns*. Excludes railroad workers and self-employed.



in the county's small establishments is counter cyclical. In 1979, small establishments accounted for 84.8 percent of all establishments. At the end of the 1982-83 recession, they represented 86.3 percent of the county's total establishments. In 1989, their share of the county's total number of establishments fell to 83.7 percent, rose slightly to 83.9 percent in 1991, and shrank back down to 83.7 in 1993. In addition, the small business's share of the county's total employment has remained fairly constant while still showing counter cyclical tendencies. As show in Table 2, in 1979 at a business cycle peak, small establishments employing fewer than twenty workers accounted for 23.5 percent of the county's total private employment. In 1983, just after the 1981-82 recession, small establishments' share of total private employment rose to 27.4 percent. Their share dropped slightly by 1989, the next business cycle peak, and stood at 27.1 percent in 1993.

Table 2  
 Employment Share of Establishments  
 Employing Fewer than 20 Workers  
 in Kalamazoo County

Year	Number	Percent of Total Private Employment*
1979	19,520	23.5
1983	21,466	27.4
1989	25,516	26.1
1993	27,415	27.1

\*Excludes railroad workers and self-employed.

Source: U.S. Dept. of Commerce *County Business Patterns*

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While small establishments' share of all establishments in Kalamazoo County has changed little over the past 15 years, this ratio begs more questions than it answers. Does the percentage stay fairly constant because small business startups and expansions match small business deaths and contractions? Is there movement between employment-size categories so that small establishments are growing out of the small-establishment grouping at the same pace as larger establishments are shrinking, thus keeping the percentage the same? Finally, this

statistic does not indicate anything about Kalamazoo County's performance compared to similar areas.

To explore these issues we used a recently released data series tabulated by the U.S. Census Bureau that allows the tracking of employment growth by business establishments of different firm size groups from 1989 to 1992 in all of the nation's metropolitan areas. Since an area's growth rate depends, in large part, on its industrial structure, population size, and proximity to larger MSAs, we selected metropolitan areas having the following criteria to be included in a comparison group. To be included, the metropolitan area:

- **Had to have a similar-sized manufacturing base.** In the Kalamazoo-Battle Creek MSA, manufacturing employment represented 28.1 percent of the area's total private employment in 1992. To be included in the comparison group, the area's manufacturers had to account for at least 18.0 percent, but no more than 38.1 percent of the area's total employment.
- **Had to be of similar employment size.** In 1992, private industry employed 165,690 individuals in the Kalamazoo-Battle Creek MSA. To be included in the sample, private industries in the comparison metropolitan areas had to employ no more 205,690 and no fewer than 115,690 workers.
- **Could not be included in a larger metropolitan area.** Metropolitan areas that are located next to a major city can benefit from positive spillover effects of the core city's business activities.

The selected metropolitan areas are listed in Appendix A.

The time period of the analysis is, unfortunately, restricted to 1989 to 1992 due to data limitation. During this period, the national economy descended from a business peak to a recessionary low. Therefore, one would expect that a larger share of the employment growth during this period would have occurred in small establishments than would have happened during an expansionary period. Indeed, during this time period, establishments employing fewer than twenty workers in 1989 accounted for 278 percent of all jobs generated in the Kalamazoo-Battle Creek MSA (Table 3). Establishments that employed a greater number of workers, on average, lost employment during the same time period. In comparison to the selected metropolitan areas, small establishments in the Kalamazoo-Battle Creek metropolitan area accounted for less of the area's overall growth than average because, in part, the area's larger establishments that employed fewer than 500 workers did not perform as poorly as in the comparison areas.

Table 4 offers an industry comparison of the employment growth in small establishments in the Kalamazoo-Battle Creek MSA relative to the average growth witnessed in similar metropolitan areas. Overall, small establishments in the local area out-performed those in similar metropolitan areas, growing by 43.5 percent compared to 39.9 percent. Small

establishments in the area's large services sector, which represented 38.1 percent of total private employment in small establishments, clearly out-performed those in the 23 other comparison metropolitan areas. Meanwhile, small establishments in the area's goods-producing industries of construction and manufacturing did not grow as fast as their counterparts in the other metropolitan areas.

Table 3  
 Net Employment Change by Establishment Size  
 As a Share of Total Employment Change,  
 1989-1992

	<20	20-99	100-499	500+
<i>Kalamazoo-Battle Creek, MI</i>	278.0	-86.7	-42.2	-49.1
<i>Average</i>	316.6	-131.9	-75.8	-8.9
<u>Metropolitan Areas that experienced positive growth:</u>				
Appleton-Oshkosh-Neenah, WI	71.1	-16.9	8.3	37.5
Augusta-Aiken, GA-SC	57.6	-15.1	-14.6	72.0
Beaumont-Port Arthur, TX	115.2	-22.0	-6.6	13.5
Boise City, ID	99.5	-10.2	0.0	0.0
Chattanooga, TN-GA	1086.3	-322.5	-389.5	-274.4
Davenport-Moline-Rock Island, IA-IL	164.6	-54.9	-10.8	1.1
El Paso, TX	142.5	-45.4	-24.5	27.4
Evansville-Henderson, IN-KY	222.5	-74.2	-33.3	-15.0
Huntsville, AL	120.1	-37.5	-15.4	32.8
Johnson City-Kingsport-Bristol, TN-VA	149.7	-47.8	-20.2	18.3
Lansing-East Lansing, MI	120.9	-49.1	-19.9	48.0
Lexington, KY	262.5	-91.0	-98.9	27.4
Peoria-Pekin, IL	194.2	-61.0	3.6	-36.8
Rockford, IL	199.8	-63.9	-55.4	19.5
Saginaw Bay City-Midland, MI	923.3	-380.8	-282.0	-160.5

Source: U.S. Census - special tabulation.

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**Table 4**  
**Net Employment Growth of Establishments**  
**Employing Fewer Than 20 Workers**  
**By Industry**

	1989 Employment	Net Growth	Growth as a Percent of 1989 Employment
<b>TOTAL</b>			
Kalamazoo-Battle Creek MSA	30,124	13,109	43.5%
Metropolitan average	28,098	11,224	39.9%
<b>CONSTRUCTION</b>			
Kalamazoo-Battle Creek MSA	2,868	412	14.4%
Metropolitan average	3,514	659	18.8%
<b>DURABLE GOODS</b>			
Kalamazoo-Battle Creek MSA	1,677	632	37.7%
Metropolitan average	1,379	738	53.5%
<b>NON DURABLE GOODS</b>			
Kalamazoo-Battle Creek MSA	1,006	456	45.3%
Metropolitan average	748	715	95.6%
<b>TRANSPORTATION</b>			
Kalamazoo-Battle Creek MSA	884	491	55.5%
Metropolitan average	922	531	57.5%
<b>WHOLESALE</b>			
Kalamazoo-Battle Creek MSA	1,886	550	29.2%
Metropolitan average	2,305	447	19.4%
<b>RETAIL</b>			
Kalamazoo-Battle Creek MSA	7,847	2,235	28.5%
Metropolitan average	7,201	2,490	34.6%
<b>FIRE</b>			
Kalamazoo-Battle Creek MSA	1,657	587	35.4%
Metropolitan average	1,676	758	45.2%
<b>SERVICES</b>			
Kalamazoo-Battle Creek MSA	11,474	7,763	67.7%
Metropolitan average	11,098	5,270	47.5%

Source: U.S. Census - special tabulation

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Net employment growth can be broken down into four components: births, expansions, contractions and deaths. As shown in Table 5, a better-than-average expansion growth of small establishments accounted for the Kalamazoo-Battle Creek MSA's better-than-average performance during the 1989-1992 period. Employment increased 35.6 percent among small establishments in the Kalamazoo-Battle Creek area due to expansions, compared to an average 30.1 percent in the comparison group. On the other hand, employment growth due to births of small establishments in Kalamazoo-Battle Creek MSA was below average during the period, 37.4 percent to 41.7 percent.

Table 5  
Components of Employment Change  
in Small Establishments Employing Fewer Than 20 Workers, 1989-1992  
(Percent of 1989 Employment)

All Industries	Births	Deaths	Expansions	Contractions	Net
Kalamazoo-Battle Creek, MI	37.4	-17.0	35.6	-12.5	43.5
Metropolitan Average	41.7	-18.7	30.1	-13.2	39.9

Source: U.S. Census Special Tabulation

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In regard to employment loss due to deaths and contractions, Kalamazoo-Battle Creek MSA's performance was slightly better than average. Still, as found in previous national research, employment loss due to deaths and contractions was fairly uniform across metropolitan areas.

Unfortunately, data limitations do not allow an industrial analysis of the employment change in small establishments during the 1989-to-1992 period. However, we are able to examine the change in the number of establishments according to the movements in their employment levels as shown in Table 6. For example, the percentage growth in the number of establishments in the Kalamazoo-Battle Creek MSA due to births was 33.1 percent, which was only slightly lower than the comparison group's average of 33.4 percent. In contrast, the spread between the local area and the comparison group in terms of employment growth due to births was larger, a difference of 4.3 percent. The same is true for the number of establishments that expanded during the period. The percentage increase in the number of establishments that experienced employment growth in the local area was only 0.6 percent higher than average, while in terms of employment growth there was a 5.5 percent difference.

Table 6  
 Components of the Change of the Number of Small Establishments,  
 Employing Fewer than 20 Workers  
 (Percent of 1989 Establishments)

	Births	Deaths	Expansions	Contractions	Change in Est.	Growing Declining
Kalamazoo-Battle Creek, MI	33.1	24.6	31.0	22.7	8.5	16.8
Metropolitan Average	33.4	26.3	30.4	22.2	7.1	15.3
Agricultural Services	37.5	21.7	35.8	17.5	15.8	34.1
Metropolitan Average	40.5	24.8	35.9	18.9	15.7	32.7
Mining	18.2	9.1	63.6	18.2	9.1	54.5
Metropolitan Average	25.5	36.7	26.6	20.0	-11.2	-4.6
Construction	37.2	22.5	30.4	25.8	14.7	19.3
Metropolitan Average	33.4	29.4	29.9	24.3	4.0	9.6
Durables Manufacturing	26.4	22.8	32.3	32.3	3.5	3.6
Metropolitan Average	31.2	23.2	33.1	29.3	8.1	11.8
Nondurables Manufacturing	18.7	22.7	34.7	22.0	-4.0	8.7
Metropolitan Average	36.0	26.2	32.8	24.3	9.8	18.3
Transportation, Utilities	46.7	30.5	39.5	16.8	16.2	38.9
Metropolitan Average	44.8	33.2	30.2	20.5	11.6	21.3
Wholesale Trade	30.2	20.2	30.8	26.2	10.0	14.6
Metropolitan Average	30.2	24.3	31.7	24.8	5.9	12.8
Retail Trade	31.8	27.9	30.4	24.6	3.9	9.7
Metropolitan Average	33.9	30.3	29.5	23.1	3.7	10.0
Finance, Insurance, Real Estate	35.4	18.8	29.9	19.3	16.6	27.2
Metropolitan Average	39.3	23.4	26.5	18.9	15.9	23.5
Services	31.5	19.2	32.6	22.5	12.2	22.4
Metropolitan Average	29.2	20.8	32.2	21.6	8.3	19.0

Source: U.S. Census Special Tabulation.

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These findings support national research which suggests that employment growth among small establishments is not uniform but instead occurs in a small subset of establishments. If employment growth was uniform among all establishments, the percent increase in the number of establishments would match that of employment.

The local area's change in establishments due to deaths or contractions was near the average of the comparison group, although a lower percentage of the area's small establishments died during the period. Overall, the percent change in the number of small establishments in the local area, 8.5 percent, was higher than the 7.1 percent average increase for the comparison metropolitan areas. In addition, the net growth in establishments locally that experienced employment growth (birth and expansions minus deaths and contractions) was 16.8 percent compared to 15.3 percent in the comparison group.

The percent change in the number of establishments in Kalamazoo County by the four components of employment growth and by major industrial groupings is shown in Table 6. In contrast with the average of the comparison group:

- In manufacturing, the birth rate of small establishments in the Kalamazoo-Battle Creek MSA is lower than for the comparison group. However, it is impossible to determine if this is because the area is less attractive to entrepreneurs or because the area's industry mix of pharmaceuticals, cereal, paper and auto suppliers is not conducive to small business startups due to high capital requirements.
- The death rate among existing small establishments in the local area is lower than the average across all industries.
- The growth in the number of establishments in the local area that witnessed employment expansions or contractions was slightly higher-than-average or near-average across most industries.

This data base does not allow for calculating the percentage of the area's small establishments responsible for the employment growth. However, in an earlier study of manufacturing establishments in the West Michigan area, Upjohn Institute researchers found that only 2.3 percent of the region's manufacturing establishments that employed fewer than 50 workers in 1979, employed 100 or more workers in 1989. In comparison, 67.6 percent of the region's 1979 small establishments continued to employ fewer than 50 workers in 1989, and 24.3 percent either closed or moved by 1989.<sup>17</sup>

We also examined trends in the number and income of proprietorships in Kalamazoo County relative to the comparison areas, as well as for all the metropolitan areas in the state outside of Detroit. As shown in Table 7, during the 20-year period, 1969 to 1989, proprietor income grew at a slower pace than wage income in Kalamazoo County, in the comparison metropolitan areas, and in the state's metropolitan areas outside of Detroit. In Kalamazoo

**TABLE 7**  
**Comparative Analysis of Wages Per Worker and Income Per Proprietor**  
**1969, 1979, 1989, 1994**

	1969	1979	1989	1994
<b>Kalamazoo County</b>				
Proprietor income per proprietor	\$7,516	\$10,975	\$14,499	\$18,061
		<u>69-79</u>	<u>79-89</u>	<u>89-94</u>
Avg. annual growth in Proprietor income		3.9%	2.8%	4.5%
Proprietors/Wage & Salary workers	9.6%	9.8%	12.7%	13.5%
Proprietors/Population	4.0%	4.7%	6.7%	7.5%
Proprietor income per proprietor/Comparison Group	111.5%	91.1%	87.8%	91.8%
Proprietor income per proprietor/Michigan	99.2%	98.1%	110.1%	109.7%
Wage earnings per worker	\$7,081	\$13,856	\$23,014	\$26,357
		<u>69-79</u>	<u>79-89</u>	<u>89-94</u>
Avg. annual growth in wage earnings		6.9%	5.2%	2.8%
<b>Comparison Group</b>				
Proprietor income per proprietor	\$6,739	\$12,053	\$16,515	\$19,676
		<u>69-79</u>	<u>79-89</u>	<u>89-94</u>
Avg. annual growth in Proprietor income		6.0%	3.2%	3.6%
Proprietors/Wage & Salary workers	10.5%	11.3%	13.8%	15.1%
Proprietors/Population	4.1%	5.3%	6.7%	7.4%
Wage earnings per worker	\$6,425	\$12,795	\$20,607	\$24,479
		<u>69-79</u>	<u>79-89</u>	<u>89-94</u>
Avg. annual growth in wage earnings		7.1%	4.9%	3.5%
<b>Michigan Cities</b>				
Proprietor income per proprietor	\$7,577	\$11,190	\$13,166	\$16,459
		<u>69-79</u>	<u>79-89</u>	<u>89-94</u>
Avg. annual growth in Proprietor income		4.0%	1.6%	4.6%
Proprietors/Wage & Salary workers	9.5%	9.3%	12.4%	13.5%
Proprietors/Population	3.8%	4.3%	6.1%	6.9%
Wage earnings per worker	\$7,418	\$14,854	\$23,220	\$27,597
		<u>69-79</u>	<u>79-89</u>	<u>89-94</u>
Avg. annual growth in wage earnings		7.2%	4.6%	3.5%

Source: Bureau of Economic Analysis, REIS.

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County, proprietor income grew at an annual rate of only 3.9 percent compared to 6.9 percent for wage earners during the 1970s and at a lesser 2.8 percent pace compared to a 5.2 percent rate for wage earners in the 1980s. During the most recent 1989-to-1994 period, on the other hand, proprietor income grew at a faster pace than wage and salary earners in Kalamazoo



County and the two comparison groups. In fact, proprietor income grew at a higher pace in Kalamazoo County during the latest five-year period than in the two comparison groups, on average. Finally, the ratio of the number of proprietors per wage and salary worker has been growing in the county, as well as in the comparison groups.

In summary, our comparison analysis of the Kalamazoo County area indicates that the health and performance of its small business sector are at least no worse than the average for similar metropolitan areas. This is not the same as concluding that its performance could not be improved. Still, past trends suggest that the county's small business sector has performed as well as can be expected given its size, industrial composition, and location relative to larger metropolitan areas.

## **Characteristics of Self-employed Individuals**

### **National Findings**

Several researchers have developed profiles of individuals who start new firms. One found that members of new firm startup teams are between 25 to 40 years old, have substantial industry experience, but are starting a business for the first time.<sup>18</sup> In a 1989 study, researchers reported additional key characteristics of entrepreneurs:<sup>19</sup>

- The likelihood of becoming an entrepreneur is seemingly independent of age and work experience. The traditional job-shopping model where younger workers are more likely to take employment risks than older workers does not apply.
- The probability of an entrepreneur returning to wage or salary employment decreases with duration. Approximately 10 percent leave self-employment during the first year and 50 percent during the first seven years.
- The percentage of the workforce that is self-employed increases until around 40 years of age and then remains steady.
- All things equal, men with greater assets are more likely to become self-employed than men with fewer financial resources, suggesting the existence of a possible financial constraint.
- At the same time, low-wage workers, unemployed workers, and workers who have changed jobs frequently, are more likely to be self-employed.
- Men, who believe that their future depends largely on their own actions, have a greater probability of becoming self-employed.

Unfortunately, comparable data are not available for women or minorities.

More recent research published in January of this year, suggests that some trends have changed since the 1989 study.<sup>20</sup> First, the ratio of self-employed individuals to total

employment was found to increase with age. The study found that only 3.1 percent of all workers between the ages of 20 and 24 were self-employed, compared to 14.2 percent of all workers between the ages 55 and 64 and to 26.0 percent of all workers 65 years and older. In total, 10.2 percent of all male workers and 6.9 percent of all female workers were self-employed in 1994. The study attributes this trend to two factors: the development of a "second career" after retirement and that in the 1950s when today's older workers entered the labor market, self-employment opportunities were more plentiful. In 1950, self-employed workers represented 12.0 percent of all nonagricultural workers, compared to 7.5 percent in 1994. Finally, the report found that relative to wage and salary workers the self-employed are more likely to work part-time, suggesting that self-employment may be a "moonlighting activity" to some and supplemental household income to others.

## **Local Findings**

We uncovered similar trends in our examination of 1990 U.S. Census Public Use Microdata Sample (PUMS) data for Kalamazoo County. The PUMS database allows the opportunity of examining the individual census records of 5 percent of the county's population including records on 150 self-employed workers. Although the sample is small, it still shows that the county's self-employed individuals are typically better educated, earn more, and are older than wage and salary workers.

First, as shown in Table 8, a much higher percentage of self-employed workers are older than 65 years of age than are wage and salary workers, 9.3 percent compared to 4.7 percent. The same is true for workers between the ages of 45 and 64 and, to a lesser extent, between 30 and 44 years of age. Workers, who are less than 30 years of age account for only 16.7 percent of the self-employed group but 46.2 percent of wage and salary workers.

According to the 1990 PUMS data, self-employed workers are more likely to be a white, male, and married householders than are wage and salary workers. Eight percent of the county's self-employed are black compared to 10.9 percent of the county's wage and salary workers. Finally, 60.7 percent of the county's self-employed are males compared to 48.6 percent of wage and salary workers.

As shown on Table 9, self-employed workers are more likely to be better educated than wage and salary workers. In fact, 25.2 percent of the county's self-employed have graduate degrees compared to only 9.7 percent of the county's wage and salary workers. On the other hand, the percentage of the county's self-employed who did not complete high school is identical to the percentage of wage and salary workers who did not finish.

Not surprisingly, given that self-employed workers are better educated than wage and salary workers, mean income for self-employed individuals, \$17,096, is 3.2 percent greater than the mean for wage and salary workers, \$16,568. These income measures, shown in Table 10, exclude all non-work related income.

**Table 8**  
**Demographic Characteristics of**  
**the Self-employed and Wage & Salary Workers in Kalamazoo County**  
**1990**

	Self-employed	Wage & Salary Workers
<i><b>Age:</b></i>		
Average Age:	43.8	34.7
<30:	16.7%	46.2%
30-44	38.7%	30.0%
45-64	35.3%	19.3%
>64	9.3%	4.7%
<i><b>Family:</b></i>		
Householder	57.3%	47.3%
Spouse	23.3%	18.6%
Son/Daughter	3.3%	8.6%
Other	16.0%	25.6%
<i><b>Marital Status:</b></i>		
Married	51.3%	40.6%
Divorce/separated	14.7%	12.2%
Never married	16.0%	44.8%
<i><b>Race:</b></i>		
White	91.3%	85.8%
Black	8.0%	10.9%
Other	0.7%	3.2%
<i><b>Gender:</b></i>		
Male	60.7%	48.6%
Women	39.3%	51.4%

Source: U.S. Census PUMS Files

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**Table 9**  
**Education Achievement of**  
**Self-employed and Wage & Salary Workers in Kalamazoo County**  
**1990**

	Self-employed	Wage & Salary Workers
No High School	13.3%	13.7%
High School Only	16.0%	22.1%
Some College	18.0%	33.4%
Associate Degree	4.0%	7.3%
Bachelors	23.3%	13.9%
Graduate Degree	25.3%	9.7%

Source: U.S. Census PUMS Files.

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**Table 10**  
**Personal Income of**  
**Self-employed and Wage & Salary Workers in Kalamazoo County**  
**1989**

Earnings	Self-employed	Wage & Salary Workers
Less than \$15,000	56.8%	59.0%
\$15,001 - 35,000	21.6%	29.7%
\$35,001 - 50,000	2.3%	7.6%
\$50,001 - 75,000	3.4%	2.4%
\$75,001 -150,000	6.8%	0.9%
More than \$150,000	0.0%	0.3%
Mean Income	\$17,096	\$16,568

Source: U.S. Census PUMS.

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Finally, as expected, a higher percentage of the self-employed are in professional services and medical occupations than wage and salary workers in general (Table 11). At the same time, self-employed workers are under-represented in manufacturing.

**Table 11**  
**Employment by Industry and Occupation in Kalamazoo County**  
**1990**

<i>Industry</i>			<i>Occupation</i>		
	Self-employed	Wage & Salary		Self-employed	Wage & Salary
Agriculture	4.7%	2.1%	Exec., Admin., & Mgt.	16.0%	10.2%
Mining	0.0%	0.0%	Professional Specialty	26.7%	7.0%
Construction	10.7%	3.9%	Technician	0.7%	3.6%
Manufacturing	4.7%	24.2%	Sales	14.7%	15.0%
Transportation	2.0%	3.9%	Administrative Support	3.3%	13.6%
Wholesale	4.0%	3.7%	Service	17.3%	20.9%
Retail	14.7%	30.8%	Farming	2.7%	2.1%
Finance, Insurance, Real Estate	5.3%	5.6%	Mechanics and Repair	1.3%	2.6%
Bus. & Repair:	6.7%	4.6%	Construction Trades	9.3%	2.4%
Personal Services	5.3%	3.2%	Precision Production	2.0%	3.8%
Entertainment	0.7%	2.1%	Machine Operators, Assemblers	1.3%	9.7%
Medical	12.7%	9.0%	Transp. and Material Moving	4.7%	9.0%
Other Professional Services	16.0%	6.3%			
Family Child Care	12.7%	0.4%			

Source: U S Census PUMS Files

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## Local Area Small Business Survey

In order to obtain a more complete picture of the current condition of the small business sector in Kalamazoo County, we mailed surveys to 1,756 small businesses in the county. The mailing list was developed using the following sources:

- *1996 Kalamazoo County Business Directory*<sup>21</sup>
- County D.B.A. filing for the past two years
- New business listings reported in various local business publications.

After a second mailing, we received 763 usable returns for a very strong response rate of 43 percent. The survey instrument used is in Appendix B. As shown in Table 12, the general

Table 12 General Characteristics of Survey Respondents (percent)	
Age	Respondents
20 years or less	0.4
21-30	7.5
31-40	21.1
41-50	36.2
51-64	27.4
65 or more	7.5
<b>Gender</b>	
Male	70.3
Female	29.7
<b>Race</b>	
White	92.7
Black	5.2
Asian	1.0
Hispanic	0.6
<b>Resident of County</b>	
0-10 years	15.1
11-25	31.2
26-50	43.8
51-64	7.3
65 or more	2.6
Source: Small Business Owner/Manager Survey, 1996	
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characteristics of the survey respondents are similar to those listed in Table 8. Only 5.2 percent of the survey respondents were black, and 29.7 percent were women. The survey's respondents had similar characteristics as those found in 1990 (Table 8) using the PUMS Census data. Finally, only 15.1 percent of the survey respondents lived in the county for fewer than 11 years, supporting the finding of national studies that entrepreneurs do not move to a new location to start a business.

Not surprisingly, most small business owners have had prior experience in the field of their business, according to the survey results. Of the surveyed business owners, 76.2 percent reported obtaining previous experience in their business's industry; 45.2 percent had previous experience as an owner or manager of another firm (Table 13). Somewhat counter to other studies, a large minority of the owners/managers surveyed, 32.7 percent, was laid off at least once by previous employers. Unfortunately, it is unknown if being laid-off was the catalyst for becoming a small business owner. Finally, 13.1 percent of the surveyed business owners had accepted early retirement, suggesting that for them they are pursuing a second career.

Forty-one survey respondents revealed that they had been unsuccessful in starting a small business before their current operation (Table 14). Twenty-seven survey respondents had one false start, while nine had two. Somewhat surprising, given that a business failure can be looked at unfavorably in a later loan application, only 26.8 percent of the surveyed business owners who revealed a previously failed attempt found financing a major obstacle.

As was true in the PUMS sample of self-employed individuals, a large share of the surveyed small business owners, approximately 52.0 percent, earned a bachelor degree or higher (Table 15).

Finally, during the year that an individual started a business (Table 16), only 22.6 percent had a household income of less than \$20,000, while 12.5 percent had a household income of more than \$80,000.

Table 13  
Economic Characteristics of Individuals  
Who Opened a Business in the Last Three Years:

	number	
Previous experience in industry	128	76.2%
Owned or managed another business	76	45.2%
Laid-off	55	32.7%
Accepted early retirement	22	13.1%

Source: Small Business Owner/Manager Survey, 1996

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**Table 14**  
**Number of Surveyed Owners Who Were Unsuccessful Before:**

	<u>Yes</u>
Unsuccessful before in starting a business?	41
Number of times attempted: One	27
Two	9
Three	2
Four	2
Five	1

- 29.3% surveyed businesses that were started in the past three years were unsuccessful in starting a business previously.
- 26.8% found financing a major obstacle after failing in a previous business start-up.

Source: Small Business Owner/Manager Survey, 1996

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**Table 15**  
**Education Levels of Small Business Owners**

	<b>Firms less than 3 years</b>		<b>Firms 3 or more years</b>	
	Number	Percent of Respondents	Number	Percent of Respondents
Less than High School	5	1.5%	8	2.0%
High School Diploma	31	9.2%	38	9.4%
Post-High School Technical Certificate	13	3.9%	22	5.4%
Two-year Associate Degree	24	7.1%	29	7.1%
Some College	85	25.2%	103	25.4%
Bachelors Degree	107	31.8%	112	27.6%
Graduate Degree	72	21.4%	94	23.2%

Source: Small Business Owner/Manager Survey, 1996

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**Table 16**  
**Total Household Income in the Year that the Business Was Started.**

Income	Number	Percent of Respondents	Financing an Obstacle
Less than \$20,000	38	22.6%	31.6%
\$20,000 - 39,000	40	23.8%	25.0%
\$40,000- 59,000	35	20.8%	11.4%
\$60,000- 79,000	17	10.1%	41.2%
\$80,000 -100,000	13	7.7%	7.7%
\$100,000 Plus	8	4.8%	12.5%

Source: Small Business Owner/Manager Survey, 1996

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From 1993 to 1996, employment in the 763 businesses surveyed increased 7.7 percent. During the same time period, total employment grew by 4.2 percent in the Kalamazoo-Battle Creek MSA as shown in Table 17. Firms that employed fewer than 10 workers in 1993 experienced the greatest growth, 12.0 percent, while firms that employed between 10 to 20 workers in 1993 lost 2.0 percent of their 1993 workforce.

**Table 17**  
**Employment Growth by Firm Size**

Firm employment size in 1993	1993	1996	Absolute Change	Percent Change
< 10	1,681	1,883	202	12.0%
10-20	558	547	-11	-2.0%
21- 100	609	637	28	4.6%
TOTAL	2,848	3,067	219	7.7%

Source: Small Business Owner/Manager Survey, 1996

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Younger firms grew faster than older firms, as shown in Table 18. However, as has been found in other studies, employment growth occurred in only a very few firms. The top five percent of the surveyed firms, ranked by employment growth, accounted for over 100 percent of the surveyed firms' total employment growth (Table 19). The bottom 40 percent of the surveyed firms lost 310 workers from 1993 to 1996.

Table 18 Employment Growth by Age of Firm				
<i>Firms by Age</i>	<i>1993</i>	<i>1996</i>	<i>Absolute Change</i>	<i>Percent Change</i>
Less 5 years	80	98	18	22.5%
5 to 9 yrs	473	616	143	30.2%
10 to 20 yrs	917	912	-5	-0.5%
20 yrs or more	1,378	1,441	63	4.6%

Source: Small Business Owner/Manager Survey, 1996

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Table 19 Employment Growth by Performance of Firms				
<i>Firm ranked by employment growth</i>	<i>1993</i>	<i>1996</i>	<i>Absolute Change</i>	<i>Percent Change</i>
top 5%	342	591	249	113.7%
top 10%	539	877	338	154.3%
1st quartile 20%	788	1,238	450	205.5%
2nd quartile 20%	374	453	79	36.1%
3rd quartile 20%	161	161	0	0.0%
4th quartile 20%	626	623	-3	-1.4%
5th quartile 20%	899	592	-307	-140.2%

Source: Small Business Owner/Manager Survey, 1996

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#### IV. Current Services Offered by Area Small Business Assistance Providers

Kalamazoo County houses a wide selection of small business assistance providers, offering strong expertise in a variety of general and specialized fields. In addition, its banking community has shown a strong interest in facilitating the growth of business. Tables 21 and 22 provide a partial list of the county's small business assistance providers and their products and services. The list is only a partial tabulation because it is based on a mail survey. We are not certain that all of the county's small business assistance organizations received a survey or responded. In addition, the activities offered by each provider can change without notice.

##### Financial Assistance

Available services to small businesses include financial assistance, as well as, counseling and training. The county's financial institutions not only offer loan products of all types, but several are active in the lenders' assistance program and most all make regular referrals to the area's service providers. In addition, the county's commercial banks are active in two of the more widely used government assistance loan programs, SBA and the Capital Access Program, as shown in Table 20. The Michigan Strategic Fund's Capital Access Program is a shared-risk program where the Fund, bank, and borrower contribute to a loan loss reserve that the bank can

Table 20  
Private Loan Activity in Kalamazoo County  
Capital Access Program and the U.S. Small Business Administration  
(thousands of dollars)

Year FY -SBA CY-CAL	SBA Loans in County	SBA Loans in the State	Percent Share	Capital Access Loans in the County	Capital Access Loans in the State	Percent Share
1991	N.A.	N.A.	N. A.	\$1,017.2	\$15,872.0	6.4%
1992	N.A.	N.A.	N. A.	\$1,537.2	\$27,056.7	5.7%
1993	\$2,700	\$125,600	2.1%	\$2,016.9	\$32,600.7	6.2%
1994	\$2,900	\$161,500	1.8%	\$1,789.0	\$41,511.1	4.3%
1995	\$4,900	\$206,000	2.4%	\$1,856.0	\$48,570.0	3.8%
1996	\$3,700	\$134,300	2.8%	N.A.	N.A.	N.A.

Source: SBA Loans Volumes - Michigan District Office of the U S Small Business Administration; Capital Access Programs Loans - Michigan Strategic Fund under the Michigan Jobs Commission .

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use if necessary. The existence of a subsidized loan loss reserve allows the bank to be more aggressive in making loans; however, if the bank makes too many bad loans, the reserve could be exhausted and the bank would be at risk for the excess loss.

The City of Kalamazoo also offers three separate loan programs. Its Small Business Revolving Loan Fund has a current balance of \$426,000 and offers below-market interest rate loans for the purchase of fixed asset improvements to property. The loan program is restricted to businesses located in the city and targeted to business startups and expansions which create new job opportunities or retain existing jobs with a majority of the jobs targeted toward low- and moderate-income individuals. Its Economic Initiative Fund, which currently has over \$400,000, is available for businesses based on job creation or retention, tax base created or retained. Finally its Economic Opportunity Funds can be used for grants or low interest loans to create or retain jobs in the city and enhance the tax base.

### **Information, Counseling and Training**

The major non-profit or governmental small business providers in the area are the county's two major libraries, Kalamazoo College SBDC/Stryker Center, S.C.O.R.E., and W.E.S.T.O.P.S. As shown in the Tables 21 and 22, the services offered by the four include:

- **Business information**, e.g., the *Kalamazoo County Business Directory* prepared by the Kalamazoo Public Library.
- **One-on-one counseling and assistance in preparing a business plan** which are available at the Kalamazoo College SBDC/Stryker Center, S.C.O.R.E., and W.E.S.T.O.P.S. The staff at Kalamazoo College SBDC/Stryker Center spends approximately 80 percent of its time on one-on-one counseling with individuals who wish to start a business or who are already in business.
- **Educational opportunities** are also offered by the above three providers, as well as, by Kalamazoo Valley Community College and Davenport College.

Mentoring opportunities are also available. The Northside Economic Potential Group in association with the Deacon's Conference offers mentoring opportunities where an established entrepreneur is paired with an individual interested in starting a new business. The Group has facilitated a support group of small business owners and would-be entrepreneurs and is now organizing a microenterprise loan program.

**Table 21**  
**Available Services for Individuals Interested in Exploring Self-Employment Opportunities**

Organization	Activities
<b>Financial Services</b>	
First of America Bank	Loan products of all types. Cash mgmt. products, investment products and trust services.
Michigan National Bank	Small Business Banking Group Automated bank services "Getting the Credit you deserve" Lender assistance program
NBD Bank	Step to small business financing-Handout Referrals to SCORE, Stryker, etc. Business counseling.
Standard Federal	Business loans conventional, SBA loans.
Stryker Center	Referral sources Review of business plans Lenders Assistance Program - Center
City of Kalamazoo	Small Business Revolving Loan Fund Economic Initiative Fund Economic opportunities
<b>Counseling and Education Services</b>	
Davenport College	Small Business classes
Kalamazoo College/SBDC/Stryker Center	Consulting/counseling Training/workshops Data research Advocacy
Kalamazoo County Chamber of Commerce	Referrals
Kalamazoo County Services Dept.	Small Business counseling for Head Start families
Kalamazoo Public Library	Business literature publications Community Information Kalamazoo County Business Directory Directory of Human Services in the Kalamazoo area Help File Information and referrals
Kalamazoo Valley Community College	Small Business Mgmt Certificate Research and references Workshops and seminars Individual consulting
MSU Extension-Kalamazoo	Bulletins and publications on home-based businesses Held seminars on how to set up a home-based business

**Table 21**  
**Available Services for Individuals Interested in Exploring Self-Employment Opportunities**

Northside Economic Potential Group	Mentoring Help to obtain capital Assist in developing a business plan Assist in implementing marketing plans Facilitate support groups
Portage Public Library	Reference and circulating Pathfinders/bibliographies
S.C.O.R.E.	Counseling Workshops/Seminars
W.E.S.T.O.P.S.	Small Business Workshop One-on-one Counseling Reference library Online database searching Business Development Plan

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Table 22  
 Services for Individuals who already own an existing business (Partial List)

Organization	Activities
	<b>Financial Services</b>
First of America Bank	Loan products of all types. Cash mgmt. products, investment products and trust services.
Michigan National Bank	Small Business Banking Group - Automated bank services Preferred Lender status "Getting the Credit you deserve" - Brochure to assist entrepreneur with necessary elements that go into a business plan Lender assistance program Monthly Newsletter Seminars General mailings
Portage Commerce Bank	Michigan Strategic Fund Capital Access Program SBA Loan Guaranty program "Low Documentation" program
NBD Bank	Commercial credit-loans, lines of credit, leases, credit cards, etc. Checking and savings accounts Seminars for businesses
Standard Federal	Business loans conventional, SBA loans.
Stryker Center	Referral sources Review of business plans Lenders Assistance Program - Center
City of Kalamazoo	Small Business Revolving Loan Fund Economic Initiative Fund Economic opportunities
	<b>Counseling and Education Services</b>
Davenport College	Small Business classes
Kalamazoo College/SBDC/Stryker Center	Consulting/counseling Training/workshops Data research Advocacy
Kalamazoo County Chamber of Commerce	Entrepreneur Network - Annual Trade Expo Small Business Interchange
Kalamazoo County Services Dept.	Small Business counseling for Head Start families

Table 22  
Services for Individuals who already own an existing business (Partial List)

Kalamazoo Public Library	<ul style="list-style-type: none"> <li>Business literature publications</li> <li>Community Information</li> <li>Kalamazoo County Business Directory</li> <li>Directory of Human Services in the Kalamazoo area</li> <li>Help File</li> <li>Information and referrals</li> </ul>
Kalamazoo Valley Community College	<ul style="list-style-type: none"> <li>Selected Courses</li> <li>Business Service Center</li> </ul>
Northside Economic Potential	<ul style="list-style-type: none"> <li>Mentoring</li> <li>Assist in obtaining capital</li> <li>Assist in developing business plans</li> <li>Facilitate support groups</li> </ul>
MSU Extension-Kalamazoo	<ul style="list-style-type: none"> <li>Conference on home-based business development</li> </ul>
Portage Public Library	<ul style="list-style-type: none"> <li>Reference and circulating</li> <li>Pathfinders/bibliographies.</li> <li>Small business workshops and showcase</li> </ul>
S.C.O.R.E.	<ul style="list-style-type: none"> <li>Counseling</li> <li>Workshops/Seminars</li> </ul>
Southwest Michigan Technical Assistance Center	<ul style="list-style-type: none"> <li>Assistance with Federal and state contracting</li> <li>Export development</li> </ul>
W.E.S.T.O.P.S.	<ul style="list-style-type: none"> <li>One-on-one Counseling</li> <li>Reference library</li> <li>Online database searching</li> <li>Business Development Plan</li> </ul>

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Table 23

# KALAMAZOO COUNTY NON-PROFIT SMALL BUSINESS ASSISTANCE PROVIDERS

AUGUST 1993

**KEY**

**A = Primary    C = Some**

**B = Moderate    D = Very Little**

	Agri-Businesses	Business Literature / Publications	Business Videos	Computer Learning	Economic / Labor Data	Employee Recruitment	Employee Training	Environmental Information	Exporting Assistance	Financial Planning /Analysis	Food Products Businesses	Government Contracts Assistance	Grant Information	Home Based Businesses	International Information	Inventory Control / Management	Manufacturing Businesses	Marketing Assistance	Minority Assistance	Networking	Preparing Business Plans	Production Planning	Retail Businesses	Seminars / Workshops	Service Businesses	Site Procurement	Start-up Assistance	Wholesale Businesses	
CEO Council		C	C		B		C	B	A	D		A	B	D	B		C	C	A	B		C		B	B	A	C	C	
Davenport College	C			A		B	B																	B					
Downtown Kalamazoo, Inc.		C						C		D			C	D				A	C		D		A	B		A			
Kalamazoo College SBDC	D	B	A	B	B	A	A	C	A	A	B		D	A	B	B	A	A	A	A	A	A	A	A	A	A	C	A	B
Kalamazoo College SBI										A				B		B	B	A	B		B	B	B					B	
Kalamazoo County Chamber		B	C		C		C		C							C		A	C	B	A				B		C		
Kalamazoo Public Library	B	A	A		A			A	B	B	B			B	A	B	B	A	B	A	B		B		B			B	
Kalamazoo Valley Comm. College	D	B	B	A	C	A	A	D	C	D	D	C	D	C	C	D	C	C	C	C	C	D	D	D	A	D		C	C
Mich. Employment Security Comm.						A																							
MSU Extension - Kalamazoo	A										A		A								B				B				
Portage Public Library		A	A		C								C				B	B			B	B		C			C		
S. C. O. R. E.	D	A	C		C	B		C	C	B	B	D	D	B	C	C	C	B	C	B	A	C	A	B	B	C	A	C	
S.W. Mich. Minority Business Assoc.																		A	A					C			C		
W. E. S. T. O. P. S.		A	C	D	A			B	C	B	A	B	A	A	B	B	A	A	A	A	A	A	B	B	A	C	A	A	
W. E. Upjohn Institute / J.T.P.A.		A			A	A	A										A	A					B	C	C		C		

## Who Uses What Services

In our survey of small business owners, we asked area small business owners if they had used any of the listed services shown in Table 24. The Kalamazoo Public Library was used by 30.4 percent of the small businesses responding to the survey. Kalamazoo College's SBDC/Stryker Center was used by 26.2 percent of the respondents. More importantly, however, 43.5 percent of the business owners surveyed used more than one of the listed services which suggests that cooperation exists among the service providers. Still, it also shows that 56.5 percent of the firms surveyed did not use any of the services listed.

Table 24 Number and Percent of Businesses that Have Used the Area's Service Providers		
	Yes	Percent
CEO Council	10	6.0%
City of Kalamazoo	15	8.9%
City of Portage	13	7.7%
Davenport	11	6.5%
D.K.I.	2	1.2%
Chamber of Commerce	33	19.6%
Kalamazoo Library	51	30.4%
K.V.C.C.	28	16.7%
MSU -Extension Ser.	13	7.7%
S.C.O.R.E.	34	20.2%
K-College SBDC/Stryker Ctr.	44	26.2%
W.E.S.T.O.P.S.	20	11.9%
<b>Multi - users</b>	<b>73</b>	<b>43.5%</b>
Source: Small Business Owner/Manager Survey, 1996		
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Interested individuals can choose from various non-profit service providers for similar programs. For example, at least five offer workshops or seminars on how to write a business plan. Still, many of the providers are busy. The number of active clients being served at the Kalamazoo College SBDC/Stryker Center reached 328 in May of this year, according to its

records. Nearly 75 percent of the Center's clients are seeking assistance in starting up their own business. Others are looking for advice on a wide range of issues from accounting to international trade. Over 50 percent of the Center's clients are in the service industry; nearly 12 percent are retailers while 8.5 percent are manufacturers. Most of the clients are white, 85.7 percent; however, 13.1 percent are African Americans, which is higher than the percent of the county's self-employed workers in 1990 who were black, 8.0 percent. On average, the Center's staff spends nearly 2 hours per client, including preparation time.

During the twelve-month period ending in April of this year, 245 individuals sought business assistance at W.E.S.T.O.P.S. Unlike the Stryker Center, only 28.3 percent of W.E.S.T.O.P.S. clients were seeking assistance in starting a business, according to its files. Over 57 percent of the organization's clients came from established business operations. On average, W.E.S.T.O.P.S. personnel spends 1.2 hours per client.

### **Coordination of Services**

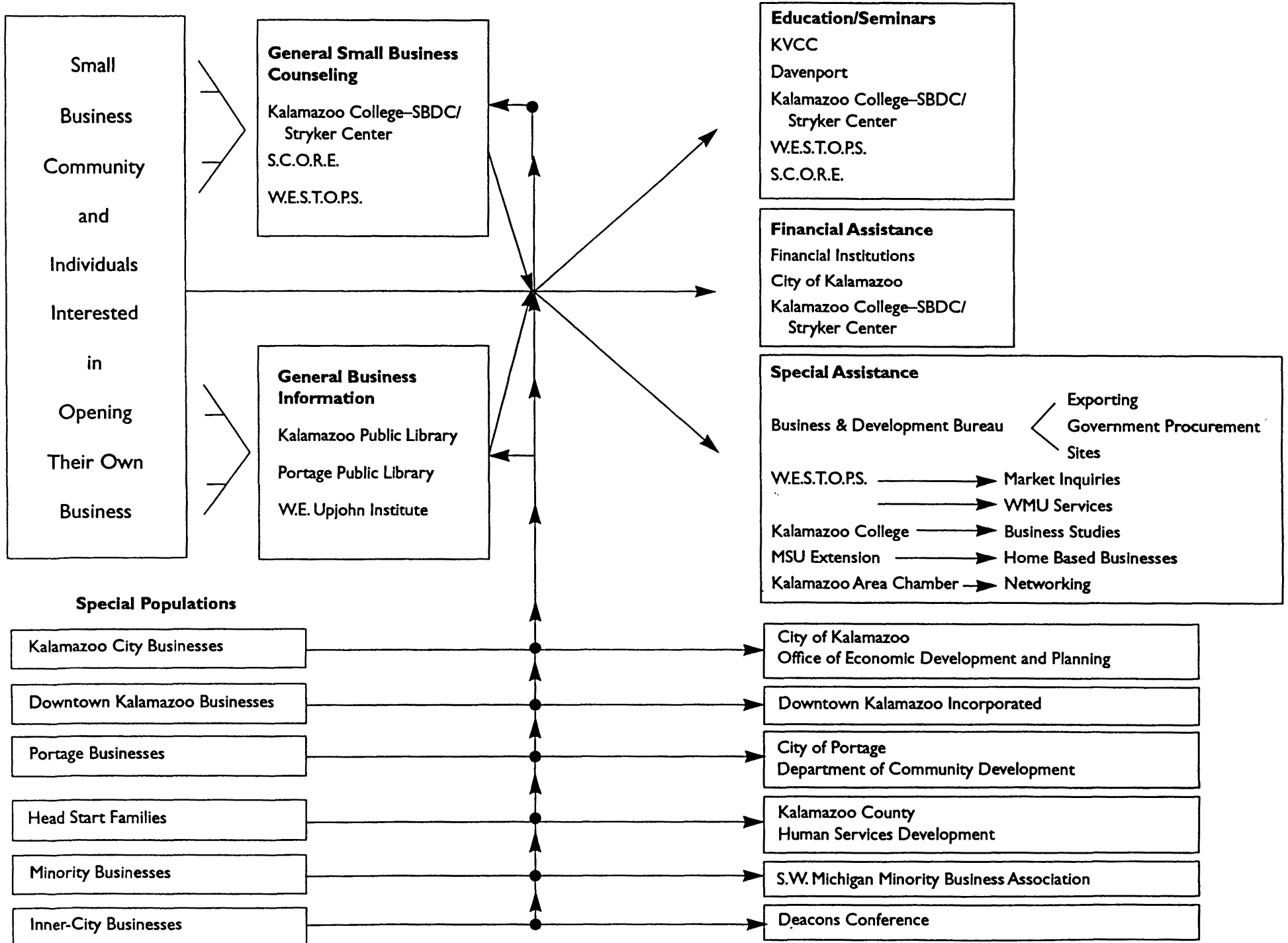
The Kalamazoo County Chamber of Commerce convenes a monthly meeting of the various small business service providers. Due to this effort the area's small business resource organizations, the service providers are in regular communication with each other. For several years the Chamber of Commerce has prepared, updated, and distributed a chart illustrating the type of services offered by area service providers. The Chart is duplicated in Table 24. Referrals are made regularly between the area providers in order to meet the needs of individuals seeking assistance.

In Chart 1, we offer a flow chart showing the different ways individuals can enter the system. The Kalamazoo College SBDC/Stryker Center, S.C.O.R.E., W.E.S.T.O.P.S., Kalamazoo Public Library and the Portage Library are typically the first points of contact by an interested individual. From any of these entry points, individuals are able to review literature and brochures of most of the area's service providers. In addition, target populations have their own programs available, and they are often passed on to other organizations in the area when needed.

Two potential limitations of the current system may exist. First, since each of the service providers generates its own marketing/information materials, there may exist a duplication in mailings. Second, it is not unusual for an individual to have to make three or four phone calls or visits before reaching the right service provider for assistance. These limitations are addressed in the report's conclusions and recommendations section.

**Chart I  
Kalamazoo County Small Business Delivery System**

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## V. Barriers and Opportunities

### Previous Studies

In 1991, the Public Policy Associates (PPA) released its *Michigan Small Business Needs Assessment* which was based on 1,721 telephone interviews to firms employing 500 or fewer workers.<sup>22</sup> The following five problems were identified by more than 30 percent of the surveyed small businesses in the state: finding finance capital (37.4 percent), costly government regulations (36.8 percent), workforce development (35.2 percent), finding assistance on technology applications (35.0 percent) and assistance in marketing (33.8 percent). Of those citing financing as a problem, 64 percent listed the unavailability of loans at below-market rates, while developing financial strategies and assessing financial needs were also cited as major difficulties.

Other studies reveal the various ways entrepreneurs finance their business ventures. Researchers who surveyed manufacturing firms in Arkansas found that small manufacturers make greater use of equity capital when starting up, while using debt capital for expansion purposes. Over 90 percent of the startups that used equity capital tapped into personal savings, and for those firms that used personal savings it provided 78.5 percent of the total capital required. The researchers stressed that one barrier facing manufacturing startups is the lack of a successful bank relationship since banks are the primary source of expansion capital.<sup>23</sup>

Yet, in a survey of 235 businesses operating in an established neighborhood in Chicago, researchers found that formal loans are seldom used in financing business startups. Only 11.5 percent of the surveyed businesses said that they used such loans in their startups.<sup>24</sup> More than 42 percent of the surveyed businesses reported being rejected for a bank loan; however, in most cases individuals appeared to have succeeded in raising similar amounts of capital elsewhere. In fact, 41.6 percent of the businesses surveyed did not use any kind of loan to finance start-up costs. Indeed, 49.5 percent of respondents used only personal resources, principally personal savings. Of those that did not ask for financial assistance for business startups, 63.2 percent reported lack of need. Only 8.8 percent revealed their belief that the bank would reject their application anyway.

Certain populations experience difficulties in obtaining financing. Data pulled from the 1987 U.S. Census Bureau's Characteristics of Business Ownership database indicated that young black business owners were able to leverage only 89 cents of debt for every dollar of owner equity, while young white business owners were successful in obtaining \$1.79 of debt per dollar of equity, even after controlling for age and management experience.<sup>25</sup>

Researchers, who surveyed women-owned firms in Wisconsin, found in their study that when starting and expanding a business, 68 percent of the women surveyed used personal savings; 46 percent commercial banks; 41 percent family, friends and relatives.<sup>26</sup>

Turning away from financial issues, research suggests that small manufacturers' may be slow adoption of new technologies. One researcher found that small manufacturers lag in the use of manufacturing practices such as use of production teams, just-in-time manufacturing and statistical process control. Moreover, they under invest in worker training, and are not likely to take a long-term approach to strategic planning.<sup>27</sup> ITI extensive research on small manufacturers in Michigan cited earlier found that many small manufacturers lacked experience with advanced technologies and new manufacturing methods. In addition, the ITI report indicated that many firms had insufficient in-house engineering expertise, poorly skilled production workers, inadequate workers training programs, and lack of knowledge about how to select equipment vendors and consultants. Furthermore, researchers worry that if these trends continue small manufacturers will simply slip further behind.

PPA also found that one barrier facing many small businesses is the owner's unwillingness to seek outside assistance. "While perceiving threats to the continuing viability of the firm, the business owner or manager believes that she or he is able to handle almost all of these threats without outside help, and in fact may take pride in doing so."<sup>28</sup> One reason business owners do not seek assistance is that they know that showing signs of weakness can be disastrous.<sup>29</sup> A troubled business will lose supplier discounts and customers.

### **Locally Identified Barriers**

We attempted to assess the type and extent of the barriers facing Kalamazoo County's small business owners by soliciting their perceptions through one-on-one interviews, a focus group of service providers and our survey of local small business owners. By and large, the three activities yielded a similar list of perceived barriers. However, it was interesting to see the differences in the priorities given to the barriers, particularly the contrast between providers and owners.

Fifteen one-on-one interviews were conducted with individuals who were either successful in their efforts to start a small business or are still trying. Most of the interviews were arranged through the Kalamazoo Deacon's Conference. Twelve of the interviewees were African American, and seven were women. While each person's experience was unique, several common threads were shared.

- **Nearly all had prior experience in the business.** Most had worked for larger companies and left to start their own business because they believed that they could provide a better product or service. However, there were exceptions. Four individuals have or are trying to start a business in a field that was totally different from their past

experience. In these instances, all of the individuals have or are conducting a market analysis.

- **On average, individuals rated the area's current small business service providers as just fair.** Several found the information they received confusing and not very helpful. Two entrepreneurs complained that they were given forms to fill out when they wanted to talk to someone. Several reported that the providers were unduly discouraging, while another spoke highly of the service he received. Still, the lack of communication between the individuals interviewed and service providers was a fairly common theme in the interviews.
- **While financing was a barrier to several, the lack of both an adequate business plan and marketing strategy were barriers to most.** As one interviewee said, "Entrepreneurs must be made aware that there is a significant difference between doing something and running a business that does something." Second, several mentioned that being a small business is itself a problem because one does not have access to the trade discounts or advertising available to their larger competitors.
- **Personal issues were barriers for several as they found that the demands of running a small business seriously cut into their family responsibilities. However, at the same time, several held strong personal beliefs that operating the business was their way of giving something back to the community or to their family.**

We also conducted a focus group session with area service providers and held one-on-one interviews with several others. The providers at the focus group session identified the following issues as major obstacles facing individuals starting or operating a small business.

- **The lack of available financing.** However, the barrier goes deeper than just the inability to secure a loan. Many would-be entrepreneurs are not willing to put up their own financial resources as collateral; instead, they want financial institutions to take most of the risk on the loan. Moreover, many first-time loan applicants have little savings, a troubled credit history and major outstanding debt. The group generally agreed that too many entrepreneurs are not financially prepared to successfully tap into existing business loan resources.
- **The lack of business skills.** Most entrepreneurs know how to produce their goods and/or services, but few have acquired the business skills that are necessary to operate a profitable business. Bookkeeping, accounting, and customer relations were cited as skills that new business owners too often lack.
- **Lack of preparation.** Frequently, individuals with a desire to start their own business do not prepare a business plan nor adequately research current market conditions for their business.

- **Unrealistic aspirations or expectations.** Too many entrepreneurs expect success too quickly and/or underestimate the amount of work that starting a new business requires.
- **Lack of knowledge on how to locate business information.** Many entrepreneurs do not know where to turn for business information on the local area and/or their industry.
- **Lack of business experience.** Some entrepreneurs attempt to start a business in an industry in which they have very little experience. Too often, individuals have an ambition of starting their own businesses without a full understanding as to what it means to run a business, e.g., long hours, that can come only through experience.

Finally, in our small business survey we asked respondents to identify from a list of possible problems what they considered to be major and minor obstacles when they were starting up or purchasing their current business (Table 25). Developing a customer base, that is finding a market for their goods or services, was by far the greatest obstacle facing starting entrepreneurs. This problem may run deeper than not knowing how to advertise, for it may also indicate that the entrepreneur did not fully research the market before entering the field. The second major obstacle identified, the inability of finding regional market information, is highly related to the first.

Table 25 Major Obstacles and Minor Obstacles to Starting a Business			
	Major	Minor	Combined
Developing a customer base	32.1%	30.4%	62.5%
Finding regional market information	13.7%	27.4%	41.1%
Finding regional financing	21.4%	17.9%	39.3%
Government regulations	11.3%	23.8%	35.1%
Finding qualified workers	13.7%	19.0%	32.7%
Finding technical assist for business plan	9.5%	22.0%	31.5%
Finding national market information	8.9%	19.6%	28.6%

Source: Small Business Owner/Manager Survey, 1996

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We also asked survey respondents to identify, in their own words, the major obstacles they faced when starting their business. We separated the respondents according to the age of the business as shown in Tables 26. Among businesses in operation for less than three years,



26.6 percent, again, indicated that identifying a customer base was the major problem they faced. Less than one in five indicated that start-up financing was a barrier. Personal problems, ranging from marital problems to a lack of self-confidence or time management skills, plagued 14.4 percent of the respondents.

For businesses that have been in existence for three years or more, government regulations and taxes were the major obstacles cited by 32.0 percent of the respondents. Finding a qualified workforce was a problem for 18.4 percent of the respondents. Locating a customer base still troubled 14.3 percent of the surveyed respondents, as well.

Table 26 Major Obstacles Cited by				
Businesses in operation				
	< 3 Years		> 3 Years	
	Total	Percent	Total	Percent
Identifying Customer Base	100	26.6	83	14.3
Start-Up/EQ Financing	69	18.4	75	13.0
Personal Problems	54	14.4	18	3.1
Cash Flow Financing	35	9.3	35	6.0
Govt. Regulations and Taxes	34	9.0	185	32.0
Lack of Marketing Information	28	7.4	27	4.7
Finding Qualified Workers	19	5.1	104	18.0
Miscellaneous	17	4.5	19	3.3
Finding Affordable Space	12	3.2	5	0.9
Business Cost/Licenses	8	2.1	17	2.9

Source: Small Business Owner/Manager Survey, 1996

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Regarding financing, we asked owners who were in business for less than three years, how they arranged financing for the opening of their business. As shown on Table 27, 79.2 percent financed the opening through personal savings, and only 11.9 percent went to a commercial bank for a loan. These findings are very similar to those reported in other studies. In addition, only 22.6 percent of the 133 respondents who used personal savings found financing a major obstacle. Many of the individuals who turned to friends and relatives did so as a last resort, since 42.1 percent indicated that financing was a major obstacle.

Personal savings was the financing choice for individuals across all income groups as shown in Table 28. Home ownership, among the upper-middle income levels, allowed the use of second mortgages. Individuals making between \$20,000 and \$39,000 accounted for 42.9 percent of all credit card users for their small business startups. Finally, commercial bank loan users were spread across a wide band of income groups.

Table 27 Financing				
How did you finance the opening of your business?			Was financing a major obstacle?	
Personal Savings	133	79.2%	30	22.6%
Second Mortgage	10	6.0%	3	30.0%
Credit Cards	35	20.8%	12	34.3%
Friends and Relatives	19	11.3%	8	42.1%
Commercial banks	20	11.9%	4	20.0%
Other	17	10.1%	5	29.4%
Source: Small Business Owner/Manager Survey, 1996				
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Table 28  
Type of Financing by Income Level

	<\$20,000	\$20-39K	\$40-59K	\$60-79K	\$80-99K	\$100K +	N.A.
Personal savings	24.8%	22.6%	21.8%	12.0%	9.0%	3.8%	6.0%
Second Mortgage	0.0%	30.0%	20.0%	30.0%	20.0%	0.0%	0.0%
Credit Cards	17.1%	42.9%	17.1%	8.6%	8.6%	5.7%	0.0%
Friends and Relatives	21.1%	36.8%	10.5%	26.3%	0.0%	5.3%	0.0%
Commercial banks	10.0%	25.0%	20.0%	25.0%	15.0%	5.0%	0.0%
Other	23.5%	17.6%	17.6%	5.9%	5.9%	5.9%	23.5%

Source: Small Business Owner/Manager Survey, 1996

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### What Could be Done?

Returning to Birch, he offered several observations that run counter to standard economic development concepts. First, he suggests that high cost areas tend to do better than low-cost areas because innovative firms require quality not cheapness and will locate in an area where smart, creative individuals want to live. Indeed, Birch focuses on five location factors: educational resources, (particularly higher education), quality of labor, quality of government, telecommunications and quality of life.<sup>30</sup> According to Birch, it is quality not cheapness that the successful entrepreneur needs. Wages and taxes are secondary. Other researchers agree and suggest that the most important contribution that a local government can make to new firms is to provide quality educational programs at all levels, reliable infrastructure (roads, utilities, transportation), and an efficient and responsive government.

In the survey, we asked business owners to rank, in order of helpfulness from 5 to 1, a list of nine traditional small business services that are offered in other communities around the country. As shown on Table 29, the availability of small business, market-rate loans with minimum collateral requirements ranked highest, followed by business planning assistance and the availability of seminars on key issues. It is important to note that low-interest rate business loans with standard collateral requirements are not as attractive to the business community. Finally, small business owners do not consider the availability of a business incubator as an important issue.

**Table 29**  
**Ranking of Small Business Assistance Program**  
**(5 = Most Helpful; 1 = Least Helpful)**

Summary Statistics	Total Sample		Established less than 3 years		Established 3-10 years		Established more than 10 years		African-Americans	
	number	score	number	score	number	score	number	score	number	score
Seminars on Key Issues	608	3.36	114	3.26	189	3.37	304	3.40	29	4.28
Business Plan Assistance	605	3.38	113	3.16	188	3.40	303	3.45	26	4.08
Market information	594	3.08	111	3.04	189	3.15	293	3.04	27	3.59
Incubator & support services	565	1.96	106	1.94	183	2.08	275	1.88	25	2.60
Incubator & low rent	558	2.11	104	1.97	176	2.20	277	2.10	25	2.64
Loan with min collateral req.	595	3.51	109	3.47	186	3.54	299	3.52	28	4.36
Loan at below mkt. rates	578	2.95	107	2.78	183	2.90	287	3.06	26	3.54
Tech & quality assistance	563	2.23	110	2.05	170	2.29	282	2.28	26	3.23
Buyer-Seller linkages	579	3.00	110	3.14	187	3.13	286	2.83	27	3.63

Source: Small Business Owner/Manager Survey, 1996

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In addition, we asked surveyed firms about what programs or activities of the area's small business providers would be the most helpful. As shown in Table 30, 24.2 percent indicated that the current providers could do a better job in promoting their activities. Several of the surveyed businesses expressed surprise about the number of service providers in the county. In addition, 13.9 percent pressed for service providers to reduce government regulations and taxes. However, many of the regulations and taxes identified were state and federal, making it difficult for local efforts to make a significant impact. Still, zoning, building code enforcement and other local issues were identified, as well. Financial assistance, general small business training assistance, and marketing networking opportunities were also cited by 11.8 percent of the surveyed businesses.

**Table 30**  
**How can Small Business Assistance Organizations  
be of Greater Assistance?**

	Total	Percent
Better Marketing of Current Programs	80	24.2%
Work to Reduce Govt Regs & Taxes	46	13.9%
Offer Financing Assistance	44	13.3%
Offer Basic Small Business Education	40	12.1%
Offer Networking Opportunities	39	11.8%
Consulting	21	6.3%
Advanced Business Training	16	4.8%
Workforce Training	16	4.8%
Miscellaneous	13	3.9%
Public Relations/Group Advertising	9	2.7%
Offer Mentoring Options	7	2.1%

Source: Small Business Owner/Manager Survey, 1996

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### Identified Barriers

In conclusion, the barriers facing individuals wanting to start their own business may come down to three basic problems that should be addressed by the area's small business assistance delivery system.

- **Identifying a customer base.** Entrepreneurs tend to focus on their products or services and not necessarily on their market or customers. They need to focus on both. In our discussions with entrepreneurs we heard over and over again that they loved the work of making the good or service, but they hated the marketing.

However, this barrier runs deeper than simply disliking selling and drumming up business. It may also reflect the lack of proper homework in the preparation of a business plan. A crucial part of a good business plan is an in-depth analysis of current market conditions for the good or service that the individual wants to make. Many

markets are very competitive, making it difficult for new businesses to enter. Hence, for some small businesses, the lack of a customer base is not simply a call for better marketing, it is the result of a poorly prepared business plan.

- **Small business financing** Financing of small business is a problem for several reasons. First, it may stem, again, from a poorly prepared business plan which does not provide an adequate justification for why the business will succeed. Second, for many small businesses, the financing needs are so small that it may not be economically feasible for a commercial bank to finance them because the returns will not cover the fixed paper work costs. Finally, some entrepreneurs are unwilling to risk what the banks believe is sufficient collateral for the loan. The biggest concern, in our view, is that low-income entrepreneurs, who have done their homework and present a good argument for the success of their business, could be denied financing due solely to the size of the request.
- **Personal Stress** Starting a small business is extremely stressful. The marketplace can be harsh and demands a tough skin and perseverance. A day of "no thank you" can shake the confidence of the most self-assertive individual.

## **VI. Conclusions and Recommendations**

The primary purpose of this study is to assess the importance of small business to the Kalamazoo County economy and attempt to identify gaps in the current efforts in providing a nurturing climate for small business owners. The benefits of a strong small business sector are not limited to expanded employment opportunities for entrepreneurs and the employees they hires. Small business assistance is both an economic development tool and a community development activity. Small business development can create jobs, but perhaps more importantly, it can bring economic hope, community leadership, and employment opportunities to individuals living in neighborhoods suffering high unemployment.

A successful small business development program may have little to no overall impact on the area's economy. First, a good business development program will prevent many individuals from starting a small business that had a slim chance of survival. Second, as research has shown, small businesses tend to stay small. In addition, if the assisted small businesses serve the local market and do not sell their goods or services to customers located outside the county, their net economic impact on the county's economy will be lessened by the amount of business they take away from existing firms. Indeed, the customer base of 73.9 percent of the small businesses surveyed in Kalamazoo County was limited to the county. Another hair salon, restaurant, grocery store or temporary employment agency, if successful, would strip business from existing establishments and thus contribute very little to the local economy.

For consumers a new store can offer more variety, better prices, and better quality service. Although the new store may negatively impact an existing operation, consumers are better off. More importantly, the neighborhoods housing the successful businesses are better off, if the businesses are using an abandoned storefront or brownfield. In low income areas, new stores can also bring convenience and employment opportunities for residents who do not have access to a dependable vehicle.

**An effective system of small business assistance organizations may not significantly impact the overall growth rate of the metropolitan area. However, small business development may be an important part of an effective community development strategy.**

### **Recommendations**

Kalamazoo County is fortunate to house many excellent small business assistance organizations. Unlike other communities, we are not hindered by the lack of available resources for small business assistance and development. Based upon our research, we offer the following recommendations for the Kalamazoo County's small business assistance providers:

- **Strengthen marketing efforts of existing programs.** In our discussions with individuals starting their own business and through our survey of small business owners, it became clear that existing small business assistance programs could do a better job in advertising/marketing their services. Currently, the service providers are doing a very good job in informing each other of the programs being offered and have developed their own mailing lists. However, we suggest the following activities be considered:
  - **A monthly or quarterly bulletin** that announces all of the scheduled seminars and services being offered by the individual organizations. The bulletin could include contact telephone number and person for each of the area's service providers. It could be mailed to all residents in the county on a monthly or quarterly basis. A newspaper insert or a posting on the Internet are options, as well. The target audience of the bulletin would also be the area's financial community.
  - **Develop a centralized business service information network** which would electronically link the area's business services providers. We are not suggesting a new office with additional personnel, but instead an automated telephone service that would direct individuals to the right agency for a particular service and announce all scheduled programs. The network would enable an individual to access programs and resources which are provided by any of the business services providers.
  - **Promote the area's small business assistance services and small business community.** For example, in Eau Claire County, Wisconsin, the area's small business assistance centers conduct an annual small business plan competition. Area service providers offer assistance to interested individuals in preparing the plans which are then judged by a panel of local experts. In their program, the winner receives \$1,000 and second place is awarded \$500.<sup>31</sup> The program not only helps the new small business person to succeed, but also promotes small business development, stresses the importance of developing a business plan, and provides visibility to a new business.
- **Establishment of a microenterprise loan program.** Microenterprise loan programs have been established across the country. According to the *1994 Directory of U.S. Microenterprise Programs* which was based on a survey sent to over 2,000 organizations nationwide, there were 195 microenterprise programs scattered over 44 states. In 1992, a similar effort yielded only 108 microenterprise programs.<sup>32</sup> According to Shorebank Advisory Service, Inc., there are currently three general types of microenterprise loan programs as shown in Table 31.



The research completed by the Shorebank Advisory Services Inc. suggests that microenterprise loan programs promote entrepreneurship, self-employment and small-scale business creation among individuals who lack access to credit via the formal banking system.<sup>33</sup> In addition, by facilitating entrepreneurship they can help create needed role models in distressed neighborhoods. Finally, their programs could generate a positive income flow to low- and moderate income households. In addition, microenterprise programs may allow the cultivation of human development skills and improved dignity and self-esteem of the client.<sup>34</sup>

It is important that any microenterprise loan fund program contains a strong education and training component. Access to capital and credit is only one of many barriers facing would-be entrepreneurs. It is also important to note that self-employment is appropriate for only a small percentage of the population.

The program should not be solely restricted to minority groups or entrepreneurs in distressed neighborhoods because we fear it would be stigmatizing. Instead, we suggest that small business assistance providers be given the financial support to conduct a special outreach effort to minorities and individuals living in distressed neighborhoods.

The program should be available to new firms, as well as, startups. Many firms face a serious cash-flow crunch during their second or third year of operation, yet they do not have a sufficient financial track record and/or required enough collateral to acquire a commercial loan. A microenterprise loan fund could supply this needed "gap" financing.

Finally, the cost structure of microenterprise funds suggests that financial self-sufficiency (i.e. the ability to earn sufficient revenue from internal operations to meet operating expenses, replace capital written off to bad loans, and pay the cost of capital) cannot be attained without either a sizeable capital endowment or operating subsidies that could be tied to operating performance. Indeed, microenterprise loan programs are expensive to offer for they include a quality training component and a small loan portfolio with an expected higher- than-average loan-loss reserve. This is also complicated by the fact that since it is targeted primarily to low-income individuals, it can expect little user support. Consequently, income from interest will most likely be inadequate to cover costs. It is possible that an effective microenterprise programs will not be financially self-sustainable.

The idea of establishing a microenterprise loan fund is not new to Kalamazoo County. Several of the area's service providers have been working toward establishing such a program. The Deacon's Conference has already received funding for a small loan fund and is currently working with neighborhood leaders and residents to determine how the program should be structured. Healthy Futures has also identified the establishment of a microenterprise loan

program as one of its anti-poverty strategies. Finally, the Kalamazoo Foundation had set aside a substantial grant to be matched by private and public dollars for the establishment of a microenterprise loan program.

We close with a word of caution. Given these recent activities, it is important that efforts are made to avoid both needless duplication and the possible establishment of competing, undercapitalized loan funds. As we have said before, Kalamazoo County's strong resource base for small businesses could further be enhanced through fostering additional cooperation among its area service providers.

Table 31  
Three General Types of Microenterprise Loan Funds

Self-Sufficiency Loan Funds	To increase the self-sufficiency of the entrepreneur	<ul style="list-style-type: none"> <li>-Informal, part-time home-based activity.</li> <li>-Enterprise formation stages.</li> <li>-Entrepreneur is beginning to think of hobby or activity as a business.</li> </ul>	<ul style="list-style-type: none"> <li>-Start-up Seed Capital loans</li> <li>-Small, short-term Working Capital loans:               <ul style="list-style-type: none"> <li>- up to \$5,000</li> <li>- up to 12-month maturities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>-Basic business management skills.</li> <li>-Personal Development / Support</li> <li>-Verbal "Action Plan"</li> <li>-Intuitive understanding of break-even sales volume.</li> </ul>
Self-Employment Loan Funds	To help entrepreneurs develop a viable source of self-employment.	<ul style="list-style-type: none"> <li>-Full-time venture for entrepreneur.</li> <li>-Storefront, office, and some home-based.</li> <li>-May have part-time employees.</li> <li>-Early-stage expansion and enterprise transformation stage.</li> </ul>	<ul style="list-style-type: none"> <li>-Pre-development stipend</li> <li>-Seed capital</li> <li>-Asset purchase</li> <li>-Working Capital loans:               <ul style="list-style-type: none"> <li>- up to \$10,000</li> <li>- up to 36-month maturities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>-Refinement of business concept</li> <li>-Financial management</li> <li>-Marketing plans and market development</li> <li>-More complete Action Plan</li> </ul>
Small-Scale Enterprise Loan Funds	To help existing microenterprises make the transition into small-scale growth enterprises.	<ul style="list-style-type: none"> <li>-Enterprise expansion stage</li> <li>-May have full-time employees</li> <li>-Entrepreneur makes most decisions, but beginning to delegate</li> <li>-Entrepreneur has demonstrated product/service quality and market and informal organizational ability</li> </ul>	<ul style="list-style-type: none"> <li>-Permanent Working Capital</li> <li>-Long-Term Seed Capital (subordinated debt)</li> <li>-Fixed Asset Financing</li> <li>-Financing needs are:               <ul style="list-style-type: none"> <li>- up to \$25,000</li> <li>- typical size \$15,000</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>-Working capital and cash flow management</li> <li>-General management skills, decision-making</li> <li>-New market development</li> <li>-Hiring and managing employees</li> <li>-Managing growth</li> </ul>

Note: A single loan fund may operate two different kinds of programs to target distinct markets of entrepreneurs.

Source: Widening the Window of Opportunity Strategies for the Evolution of Microenterprise Loan Funds, Shorebank Advisory Service, Inc., July, 1992

## APPENDIX A

### List of Comparison Metropolitan Areas

Appleton-Oshkosh-Neenah,	Wisconsin
Augusta-Aiken,	Georgia-South Carolina
Beaumont-Port Arthur,	Texas
Boise City,	Idaho
Canton-Massillon	Ohio
Chattanooga,	Tennessee-Georgia
Davenport-Moline-Rock Island	Iowa-Illinois
El Paso	Texas
Evansville-Henderson,	Indiana-Kentucky
Fort Wayne	Indiana
Huntsville	Alabama
Johnson City-Kingsport-Bristol	Tennessee-Virginia
Lancaster,	Pennsylvania
Lansing-East Lansing	Michigan
Lexington,	Kentucky
Peoria-Pekin	Illinois
Reading	Pennsylvania
Rockford	Illinois
Saginaw-Bay City-Midland	Michigan
Springfield	Massachusetts
Stockton-Lodi	California
York	Pennsylvania
Youngstown-Warren	Ohio

**APPENDIX B**

**W.E. Upjohn Institute for Employment Research's  
Small Business Owner/Manager Survey**

**W.E. Upjohn Institute for Employment Research's  
Small Business Owner/Manager Survey**  
*This survey is to be answered ONLY by the business's owner/manager*

Please complete and return this survey in the enclosed prepaid envelope or mail to:  
W.E. Upjohn Institute, 300 S. Westnedge Ave. Room 5017, Kalamazoo, MI 49007.

**Please return survey by August 7, 1996.**

1. What is the name of your business? \_\_\_\_\_

2. Your name: \_\_\_\_\_

Position/title: \_\_\_\_\_

**Business Information**

3. What is your business' major product or service? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. How many full- and part-time employees are you currently employing?

Full-time: \_\_\_\_\_ Part-time: \_\_\_\_\_

5. Is your business independently owned? Yes \_\_\_ No \_\_\_

If not, who is the owner? \_\_\_\_\_ City: \_\_\_\_\_

6. Is your business a franchise? Yes \_\_\_ No \_\_\_

7. Which of the following geographical areas best describes your market area?

- a. A circle with an approximate 3-mile radius
- b. Kalamazoo County
- c. Kalamazoo County and surrounding counties
- d. State of Michigan
- e. The Great Lake States
- f. National/international

8. How many years has your business been in operation? \_\_\_\_\_

9. How did you acquire this business?

- a. Started it on your own.
- b. Took over the business from a family member.
- c. Purchased the business from an unrelated individual
- d. Was assigned the position by the parent company.
- e. Other \_\_\_\_\_

**If your business has been in operation for less than 3 years, please continue to question 10. If not, please go to question 16.**

10. Did this business begin as: A start-up? \_\_\_\_\_ A purchase of an existing business? \_\_\_\_\_

11. Before becoming the owner/operator of this business:

	YES	NO
a. Did you have previous experience in the industry?	_____	_____
b. Had you owned or managed other small business(es)?	_____	_____
c. Were you laid off or unemployed?	_____	_____
d. Did you accept early retirement from your previous job?	_____	_____
e. Had you attempted to start another small business but was unsuccessful?	_____	_____
If yes, how many attempts did you make before this business? _____ Attempts		

12. How did you finance the opening of this business (Circle as many as apply)?

- a. Personal savings.
- b. Took out a second mortgage or equity loan on your house.
- c. Credit cards.
- d. Borrowed money from friends and relatives.
- e. Commercial banks.
- f. Partnered with venture capital investor who holds an equity position in the business.
- g. Other \_\_\_\_\_

13. When you were starting up or purchasing your current business, which of the following were major obstacles, minor obstacles, or not a problem?

	Obstacle		Not A Problem
	Major	Minor	
a. Finding acceptable financing	_____	_____	_____
b. Finding regional marketing information regarding your business	_____	_____	_____
c. Finding national marketing information regarding your business	_____	_____	_____
d. Finding technical assistance to help with the development of a business plan	_____	_____	_____
e. Government regulations	_____	_____	_____
f. Developing a customer base	_____	_____	_____
g. Finding qualified workers	_____	_____	_____

14. In the year that you started or purchased this business, what was your household's total income?
- |                       |                       |
|-----------------------|-----------------------|
| a. Less than \$20,000 | d. \$60,000 to 79,999 |
| b. \$20,000 to 39,999 | e. \$80,000 to 99,999 |
| c. \$40,000 to 59,999 | f. \$100,000 or more  |
15. In your own words, what were the major obstacles in starting or purchasing your business? \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**Please go to question 21.**

**SECTION FOR BUSINESSES THAT HAVE BEEN OPERATING FOR 3 YEARS OR MORE**

16. How long have you owned/operated this business? \_\_\_\_\_ years
17. Three years ago, how many workers did this business employ?  
 Full-time: \_\_\_\_\_ Part-time: \_\_\_\_\_
18. Did you hire at least one worker in 1995? Yes \_\_\_ No \_\_\_  
 If yes, did you find (check 1):
- |  |       |
|--|-------|
| a. Most of the job applicants to be qualified. | _____ |
| b. Some applicants to be qualified.            | _____ |
| c. Very few of the applicants to be qualified. | _____ |
19. In 1995, did you apply for a loan or line of credit at a commercial lender? Yes \_\_\_ No \_\_\_  
 If yes, was your loan approved? Yes \_\_\_ No \_\_\_
20. In general, what do you believe are the greatest obstacles facing small businesses?  
 \_\_\_\_\_  
 \_\_\_\_\_

**GENERAL INFORMATION**

21. What is your age? \_\_\_\_\_ Gender: \_\_\_\_\_ Race: \_\_\_\_\_
22. How long have you lived in Kalamazoo County? \_\_\_\_\_ years
23. Would you consider working for someone else, and, if so, how much more would they have to pay you per year than what you earn now? \$ \_\_\_\_\_



24. What level of education have you achieved?

- a. Did not complete high school
- b. High School Diploma
- c. A post-high school Technical Certificate
- d. Two-year Associate Degree
- e. Some college
- f. Bachelor Degree
- g. Graduate Degree

25. Have you used any of the services offered by the following agencies or organizations?  
Please circle all that apply:

- a. CEO Council
- b. City of Kalamazoo
- c. City of Portage
- d. Davenport College
- e. DKI
- f. Kalamazoo Area Chbr of Commerce
- g. Kalamazoo Library
- h. KVCC
- i. MSU-Extension Service
- j. SCORE
- h. Kalamazoo College-SBDC/Stryker Center
- k. WESTOPS- WMU

If you circled any of the above, please describe the assistance you received.

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26. When you started or purchased this business, how useful would the following programs have been? Please rank (5 = most helpful, 1= least helpful).

- a. Seminars on key issues/topics affecting small businesses \_\_\_\_\_
- b. Assistance in developing a business plan \_\_\_\_\_
- c. Market information, i.e. demographics \_\_\_\_\_
- d. A business incubator that would offer support services  
and shared equipment but would charge market rent \_\_\_\_\_
- e. A business incubator that would offer below-market rent  
but provide little support services \_\_\_\_\_
- f. A market-rate loan program targeted to small businesses  
that require minimal collateral requirements \_\_\_\_\_
- g. A below-market rate loan program targeted to small businesses  
with standard collateral requirements \_\_\_\_\_
- h. A program that would offer technical and quality control  
assistance \_\_\_\_\_
- i. A buyer-seller linkage program that would identify local suppliers  
and buyers of products and services \_\_\_\_\_

27. How can small business assistance organizations be of greater assistance to the area's small business community? \_\_\_\_\_

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