

Congress of the United States

U.S. House of Representatives

Committee on Small Business

2361 Rayburn House Office Building

Washington, DC 20515-6315

To: Members, Committee on Small Business
From: Committee Staff
Date: September 16, 2013
Re: Hearing: "Private Sector Initiatives to Educate Small Business Owners and Entrepreneurs"

On Thursday, September 19, 2013 at 10:00 a.m., the Subcommittee on Economic Growth, Tax and Capital Access of the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building for the purpose of shedding light on private sector efforts to educate small business owners and entrepreneurs. The Subcommittee will examine private sector training and mentorship programs by highlighting the stories of specific private sector initiatives and their effects on small businesses.

I. Introduction

At a time when small businesses are being relied on to act as the primary catalyst for economic recovery in the United States, research shows that new small businesses are creating fewer jobs than ever before, and a smaller number of businesses are forming than in the past.¹ According to the Bureau of Labor Statistics, the number of new businesses started in 2010 was the lowest since data collection began in 1994.² Not surprisingly then, the number of jobs created by businesses less than a year old decreased from 4.1 million in 1994 to 2.5 million in 2010.³

In attempting to explain reasons for small business struggles and a decline in the number of businesses formed, small business owners and advisors cite a steep learning curve that requires entrepreneurs to improve their skills.⁴ This, combined with operational inefficiencies and a lack of cash flow, often creates obstacles to achieving success.⁵ It is evident that as small business owners and aspiring entrepreneurs start and grow their businesses, continued education is necessary to adapt to an ever-changing economic environment.

II. Private Sector Educational Programs

Given the need of entrepreneurs for education and training required to start or expand their business, a panoply of such programs has been created by various entities. Although some of these are

¹ <http://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>.

² *Id.*

³ *Id.*

⁴ Melinda Emerson, *Top Preventable Causes for Small Business Failure*, THE HUFFINGTON POST (April 2013), available at http://www.huffingtonpost.com/melinda-emerson/small-business-failure_b_3184608.html.

⁵ Jay Goltz, *Top Ten Reasons Small Businesses Fail*, N.Y. TIMES, available at <http://boss.blogs.nytimes.com/2011/01/05/top-10-reasons-small-businesses-fail/>.

run by governments (be they federal, state, or local), there are many that are run by for-profit enterprises or non-governmental, non-profit organizations. It is to these that we now turn.⁶

A. Types of Educational and Training Programs

1. Classroom-Style Education⁷

A specific example of a private sector educational and training program for small business owners and entrepreneurs is the Goldman Sachs 10,000 Small Businesses Program. Through partnerships with community colleges and a variety of non-profit organizations, this initiative provides a classroom-style learning environment to established small businesses that need both financial and educational resources to grow.⁸ This program, which intends to enable 10,000 small businesses around the nation to grow through a simultaneous combination of education, capital, and various support services, was created by a \$500 million investment made by the Goldman Sachs Foundation.⁹ Two-hundred million dollars goes toward partnering with community colleges to offer accessible educational and training courses for its participants,¹⁰ while the remaining \$300 million is reserved for providing capital to spur business growth.¹¹

2. Online Education and Training

Online training programs are often utilized by small business owners who may not have the time or resources to commit to a structured, class-room training environment, but seek to advance their skills and acumen in their off-hours. A wide variety of free online training courses have become available for these knowledge-seeking entrepreneurs through the private sector.

Coursera.org, a private education company that partners with both public and private learning institutions around the world to provide free online courses,¹² offers over 40 free business courses designed for aspiring and current business owners.¹³ Courses currently available include “Foundations

⁶ This section represents only a sample of such programs. It is unclear whether any exhaustive list of such programs even exists.

⁷ Classroom-style educational and training programs for small business owners and entrepreneurs increasingly can be found in both public and private colleges across the nation. “Whereas 15 years ago only a handful of schools offered courses in entrepreneurship, today more than 1,500 colleges and universities offer some form of entrepreneurship training. There are currently more than 100 active university-based entrepreneurship centers in the U.S. and more than 270 endowed positions in entrepreneurship, an increase of 120 percent in just the last five years.” ALBERTA CHARNEY & GARY D. LIBECAP, IMPACT OF ENTREPRENEURSHIP EDUCATION I (2011), available at http://www.unm.edu/~asalazar/Kauffman/Entrep_research/e_ed_grow.pdf.

⁸ <http://www.goldmansachs.com/citizenship/10000-small-businesses/US/about-the-program/10ksb-us-brochure.pdf>.

⁹ *Id.*

¹⁰ Participants in the Goldman Sachs 10,000 Small Businesses Program receive a 100-hour, practical business education curriculum created by Babson College that is delivered through community colleges. The Program also offers a range of business support services, such advice and technical assistance, including coaching from the staff of Goldman Sachs. Additionally, participants pay no tuition or material costs. GOLDMAN SACHS, 10,000 SMALL BUSINESSES PROGRAM OVERVIEW 2 (2013) [hereinafter Goldman Sachs], on file with the Committee.

¹¹ *Id.*

¹² <https://www.coursera.org/about>.

¹³ <https://www.coursera.org/courses?orderby=upcoming&cats=business>.

of Business Strategy” offered by the University of Virginia, and “An Introduction to Financial Accounting,” offered by the University of Pennsylvania.¹⁴

Another organization providing free online training to individuals seeking to start or expand a business is My Own Business, Inc. (MOBI), a private 501(c)(3) non-profit organization funded by individual donors which receives between 200,000 and 300,000 unique visitors to its website per month seeking training.¹⁵ MOBI offers hundreds of business courses on a variety of topics, including fundamental courses on how to decide on a business idea, financing a business, and marketing a business, to more advanced courses, such as establishing financial controls and preparing for vertical integration.¹⁶ All of MOBI’s courses are completely free, and are taught by current and former small business owners and entrepreneurs, corporate executives, and academics.¹⁷

3. Incubators and Accelerators

Another avenue for small business owners and entrepreneurs to find education and training, albeit often without a formal, structured educational curriculum, is through incubators¹⁸ and accelerators.¹⁹ These types of entities tend to focus on aligning the strengths of a local community with businesses that the incubator or accelerator seeks to promote while providing the benefits of increased networking opportunities for participating entrepreneurs.

a. Incubators

Y Combinator, one of over 1,200 incubators operating in the United States,²⁰ has helped launch over 550 startup companies since 2005 through its offering of strategic advice and multitude of networking opportunities at its Silicon Valley Hub, where startups move for its three-month program.²¹ Another incubator providing education for entrepreneurs is the Capital Factory in Austin, Texas.²² Through its Capital Factory University, the incubator uses a curriculum to educate and train its participants, with specialized courses taught by participating mentors.²³

¹⁴ <https://www.coursera.org/course/strategy101>; <https://www.coursera.org/course/accounting>.

¹⁵ <http://www.myownbusiness.org/about.html>. In essence, MOBI is to business training what the Khan Academy website, www.khanacademy.org, is to math and science.

¹⁶ <http://www.myownbusiness.org/outline.html>.

¹⁷ http://www.myownbusiness.org/business_authors.html.

¹⁸ A business incubator is “an organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections.” http://www.nbia.org/resource_library/faq/index.php#3 (last visited Apr. 8, 2013).

¹⁹ Although similar in goals to incubators, an accelerator is typically “a time-specific, mentorship-driven program designed to provide startups with critical resources to help them make rapid progress on product and customer development.” Paula Andruss, *What to Look for in an Accelerator Program*, ENTREPRENEUR, Jan. 30, 2013, available at <http://www.entrepreneur.com/article/225242>.

²⁰ See *supra* note 18.

²¹ <http://ycombinator.com/>.

²² <http://capitalfactory.com/accelerate/overview/>.

²³ Courses include topics such as customer acquisition, fundraising, business development, company strategy. *Id.*

b. Accelerators

Although accelerators often focus on businesses after the incubation stage, startup accelerators are being created in various communities.²⁴ These startup accelerators²⁵ provide entrepreneurs with the benefit of learning from mentors whose knowledge base aids new business in developing their innovation into a commercial service or product. An example of a non-profit organization accelerator funded by a mix of private entities is The Brandery in Cincinnati, Ohio, which provides \$20,000 in seed money to its participants while providing education through mentoring.²⁶ Techstars, the nation's largest startup accelerator program, offers seed capital and mentorship for entrepreneurs in seven cities around the nation.²⁷

4. Peer-to Peer Mentorship Platforms

Another source of education for small business owners and entrepreneurs seeking to learn in a collaborative environment are shared workspaces, which naturally facilitate mentorship through peers working alongside one another. An increasing number of private organizations are providing the environments with the idea of creating a network of business professionals that support one another through the promotion of collaboration, community and creativity, without the normal overhead costs associated with maintaining individual office space.²⁸

One example of recently created peer-to-peer collaborative environment is the NEXT Innovation Center in Greenville, South Carolina. A creation of local entrepreneurs and the Greenville Chamber of Commerce in conjunction with a privately-owned property developer, the Center provides a place where innovators and entrepreneurs can share ideas and solicit feedback from one another through leasing office space in the state-of-the-art facility, which contains fully wired office space designed specifically to promote collaboration.²⁹ The Center's tenants include growing technology companies Servosity, Gnoso, and the NWN Corporation.³⁰

²⁴ Rhonda Abrams, *Strategies: Accelerators Can Give Business a Jump Start*, USA TODAY, Mar. 29, 2013, available at <http://www.usatoday.com/story/money/columnist/abrams/2013/03/29/small-business-accelerators/2029605/>.

²⁵ Accelerators work to advance an externally-formed idea, while incubators often use external mentors to expand upon an idea developed internally. Christina Desmarais, *Accelerator vs. Incubator, What's the Difference?*, INC., Feb. 7, 2012, available at <http://www.inc.com/christina-desmarais/difference-between-startup-accelerator-and-incubator.html>.

²⁶ Sponsors include the Duke Energy Foundation, PNC Bank, The P&G Fund, and CincyTech. <http://brandery.org/sponsors>. <http://brandery.org/accelerator>.

²⁷ <http://www.techstars.com/program/>. Techstars provides three months of intensive mentorship to its participants, and invests \$118k in each company it funds through \$18k in seed funding and an optional \$100k convertible debt note.

²⁸ Jefferson Graham, *Entrepreneurs Find Office Alternatives to Coffee Shops*, USA TODAY, May, 5, 2011, available at http://usatoday30.usatoday.com/tech/news/2011-05-03-sharing-space-small-businesses_n.htm; Carly Harrington, *Collaborative Workspaces Offer Entrepreneurs Room to Grow*, KNOXVILLE NEWS SENTINEL, Feb. 10, 2013, available at <http://www.knoxnews.com/news/2013/feb/10/collaborative-work-spaces-offer-entrepreneurs-to/>.

²⁹ <http://www.greenvillenext.com/#group-bfi-collaborative>.

³⁰ <http://www.greenvillenext.com/#group-about-tenants>. Damien Stevens, Founder and CEO of Servosity, which moved into the center as a one-person operation in 2009 and now has 12 employees, credits it with allowing him to learn from others, instead of making mistakes on his own. Dick Hughes, *Servosity Takes Off*, GREENVILLE JOURNAL, Nov. 20, 2012, available at <http://www.greenvillejournal.com/business-news/1713-servosity-takes-off.html>.

III. Results of Educational Programs

Small businesses and entrepreneurs that have participated in educational and training programs offered through the private sector have experienced measurable results. For instance, businesses participating in the Goldman Sachs 10,000 Small Businesses Program have a 99% graduation rate, with 63% reporting increase in revenues within 6 months of graduation, 47% creating new jobs, and 76% working together with other program participants.³¹ Entrepreneurs around the nation have raised millions of dollars after benefiting from the mentorship and knowledge passed to them through accelerator programs.³² Additionally, those participating in peer-to-peer collaborative environments have reported significant increases in revenues due to an influx of new business contacts.³³

IV. Federal Efforts to Educate Entrepreneurs

While the focus of this hearing is on private educational and training programs and the benefits that non-governmental programs offer, it is important to consider the extent that federal programs duplicate these efforts. In its Fiscal Year 2014 budget request, the Small Business Administration (SBA) asked for \$40 million in new spending to create a comprehensive entrepreneurial education initiative, and \$5 million for a new growth-accelerator program.³⁴ Specifically, the SBA says its entrepreneurial education initiative will “bring the proven model of intensive, mid-stage entrepreneurship training to more than 35 new locations around the country, targeted at filling gaps in underserved and urban markets.”³⁵ The agency also plans to expand its online training offerings as part of the \$40 million in new dollars it has requested to create these new educational and training programs.³⁶ Given the breadth of non-federal efforts and their efficacy, it is worth considering the need for the SBA to expand its entrepreneurial education efforts.

V. Conclusion

Given the importance of small businesses to the economy, there is a need for educational and training opportunities for small business owners and entrepreneurs in the United States. There are numerous examples of the private sector successfully filling this void. This hearing will provide members with an opportunity to learn more about these initiatives.

³¹ Graduates of the program are those participants that have completed the 100-hour curriculum created by Babson College, which includes 6-8 hours of out-of-class activities per week. See Goldman, Sachs, *supra* note 10, at 2,3,9.

³² David Lynn Hoffman & Nina Radojevich-Kelley, *Analysis of Accelerator Companies: An Exploratory Case Study of Their Programs, Processes, and Early Results*, Oct. 2012, at 61, SMALL BUS, INST.J., available at <http://www.sbij.ecu.edu/index.php/SBIJ/article/viewFile/136/93>.

³³ Alex Williams, *Working Alone, Together*, THE N.Y. TIMES, May 3, 2013, available at http://www.nytimes.com/2013/05/05/fashion/solo-workers-bond-at-shared-workspaces.html?pagewanted=all&_r=0.

³⁴ United States Small Business Administration, FY 2014 Congressional Budget Justification and FY 2012 Annual Performance Report 22 (2013) [hereinafter SBA FY 2014 Budget], available at <http://www.sba.gov/sites/default/files/files/1-508-Compliant-FY-2014-CBJ%20FY%202012%20APR.pdf>. This is in addition to congressionally-mandated entrepreneurial education programs such as the Small Business Development Center (SBDC) Program, SCORE, and Women’s Business Center (WBC) Programs.

³⁵ *Id.* at 71-72.

³⁶ SBA FY 2014 Budget, *supra* note 34, at 51.