

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

Memorandum

To: Members, Subcommittee on Investigations, Oversight, and Regulations
From: Committee Staff
Date: April 9, 2018
Re: Hearing: “Community Support: Entrepreneurial Development and Beyond”

On Thursday, April 12, 2018 at 11:00 A.M., the Committee on Small Business Subcommittee on Investigations, Oversight, and Regulations will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining the role small businesses play in creating thriving communities. The hearing will also highlight the ways in which community support is imperative to the success of small businesses. The discussion will focus on existing resources available to support the relationship between small businesses and communities, and explore areas for resource expansion.

I. Introduction

With 29.6 million small businesses in the United States employing 47.8 percent of Americans, small business success is essential to the economic well-being of individual communities throughout the country as well as our nation overall.¹ The relationship between communities and small businesses is complex and reciprocal, requiring effort and support from both parties to achieve collective success. Simply, small businesses require the support of the community to succeed and communities require the success of small businesses to thrive. A small business looks to the local community as a way of learning new business skills, passing on knowledge, making connections, learning from each other’s mistakes, and exchanging tips of the trade.² Similarly, the community is strengthened through increased employment and economic success as its small businesses succeed.

II. What Defines a Community?

Traditionally, the definition of a community is seen as “a unified body of individuals: such as, the people with common interests living in a particular area; the area itself.”³ When considering the relationship between small businesses and community, however, that definition is expanded. In this context, a community “is a set of interactions and human behaviors that

¹ U.S. SMALL BUS. ADMIN., SMALL BUSINESS PROFILE, UNITED STATES (2017), available at https://www.sba.gov/sites/default/files/advocacy/United_States_1.pdf.

² Murray Newlands, *5 Benefits of Community for Entrepreneurs*, INC. (Dec. 2, 2014), <https://www.inc.com/murray-newlands/5-benefits-of-community-for-entrepreneurs.html>.

³ *Community*, MERRIAM-WEBSTER (Apr. 4, 2018), <https://www.merriam-webster.com/dictionary/community>.

have meaning and expectations between its members. There may be communities within larger communities, including districts, regions, ethnic groups, nations and other boundaries.”⁴

A number of organizations operate as communities, including Entrepreneurial Development (ED) programs, accelerators, and community development partnerships. In this regard, we can consider the Small Business Administration’s (SBA) ED programs as a community. The three main SBA ED programs include Small Business Development Centers (SBDC), SCORE, and Women’s Business Centers (WBC). Each of these programs provides small business owners and developing entrepreneurs with technical and managerial training to support their business aspirations.⁵ A key aspect of that support is rooted in the community dynamics unique to each organization. Each SBA ED program offers the opportunities for entrepreneurs to build networks of support, seek out mentorship, and learn from each other’s mistakes.

Small business accelerators also serve as a community for entrepreneurs. Accelerators are designed to be “schools for startups”⁶ in which small business owners or entrepreneurs usually belong to a cohort of businesses participating in a fast-paced curriculum. These programs are designed to allow companies to scale quickly and seek out investments.⁷ At the end of curriculum, participating entrepreneurs often participate in a demo day where participants pitch their business ideas to potential investors. Due to the demanding curriculum and high stakes final presentation, participants often rely on each other for both support and business guidance, creating a supportive community atmosphere.

Beyond the SBA ED programs or small business accelerators, there are numerous examples of organizations that serve as communities. Often community partnerships form between local universities, chambers of commerce, governments, etc. that provide entrepreneurs with business support and networking opportunities that create a business focused community. Similarly, trade associations can serve as a link between businesses within a specific field or with similar characteristics and provide their membership with a community atmosphere. When considering the relationship between small businesses and communities, it is important to look at both traditional and nontraditional communities as sources of small business support.

III. Relationship Between Small Businesses and Communities

How does the relationship between small businesses and communities work? Any business can provide jobs to local employees and enhance the local tax base. Small businesses, however, are shown to have a multiplier effect within their community. The multiplier is a result of local

⁴ Phil Bartle, *What is Community?*, CMTY. EMPOWERMENT COLLECTIVE, available at <https://edadm821.files.wordpress.com/2010/11/what-is-community.pdf> (last visited Apr. 4, 2018).

⁵ ABOUT OFFICE OF ENTREPRENEURIAL DEVELOPMENT, U.S. SMALL BUS. ADMIN., <https://www.sba.gov/offices/headquarters/oed/about-us> (last visited Apr. 4, 2018).

⁶ GETTING UP TO SPEED, THE ECONOMIST (Jan. 16, 2014), <https://www.economist.com/news/special-report/21593592-biggest-professional-training-system-you-have-never-heard-getting-up-speed>.

⁷ CREATING INCLUSIVE HIGH-TECH INCUBATORS AND ACCELERATORS, INITIATIVE FOR A COMPETITIVE INNER CITY, JPMORGAN CHASE & CO. (2016), available at http://icic.org/wp-content/uploads/2016/05/ICIC_JPMC_Incubators_post.pdf.

businesses recirculating more money within the community compared to absentee-owned business.⁸

The multiplier effect of small businesses can benefit local communities through direct impact, indirect impact, and induced impact.⁹ Direct impact refers to the spending small business do in their local economy, such as paying local utilities, employees, or suppliers. Indirect impact is the process of the dollar that a business spent directly being recirculated in the community (i.e., when the local utility pays its employees). Induced impact happens when the owners, employees, or customers of the small business spend their income in the local economy due to their physical presence within the community.¹⁰

The small business multiplier effect can have significant impact on the local economy. Statistically, less than 14 percent of the money spent at chain businesses is later recirculated locally, compared to 48 percent of purchases spent at local independent businesses.¹¹ In a community retail study, small businesses generated “3.7 times more direct local economic benefit than spending at chains.”¹² While all small businesses produce the multiplier effect, the magnitude of impact depends on the type of business. Small businesses with the highest local premium include restaurants and service providers, followed by retailers.¹³

Outside the traditional community construct, small businesses are often the building blocks of the nontraditional communities in which they participate. Looking at both SBA ED programs as well as local small business accelerators, a key resource provided by both communities is the ability to network with other participating businesses, both past and present. With every business that seeks training at a local SBDC or SCORE chapter, the network of that chapter grows and becomes a more valuable resource and more robust support system.

The relationship between small businesses and communities is reciprocal. In addition to the support that small businesses can provide to the community described above, the community can also provide support to the small business. When considering a traditional community, studies have shown that “entrepreneurs who contribute both personally and professionally to their community, and who are supported by their community, are more likely to be successful.”¹⁴ Community support, in this case, is dependent on community participation. A small business owner who is involved in the community is significantly more likely to receive reciprocated community support through “loyal patronage and promotion.”¹⁵ That support leads to the business being more likely to expand, which has great potential to lead to net regional job growth.¹⁶

⁸ THE MULTIPLIER EFFECT OF LOCAL INDEPENDENT BUSINESSES, AM. INDEP. BUS. ALLIANCE, <https://www.amiba.net/resources/multiplier-effect/> (last visited Apr. 4, 2018).

⁹ *Id.*

¹⁰ *Id.*

¹¹ TEN STUDIES OF THE “LOCAL ECONOMIC PREMIUM”, AM. INDEP. BUS. ALLIANCE (Oct. 2012), *available at* <https://www.amiba.net/resources/studies-recommended-reading/local-premium/>.

¹² *Id.*

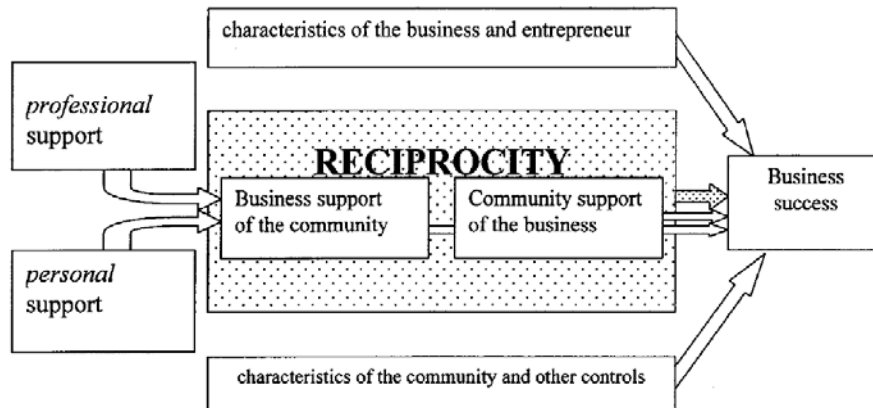
¹³ AM. INDEP. BUS. ALLIANCE, *supra* note 9.

¹⁴ Maureen Kilkeny, et al., *Reciprocated Community Support and Small Town - Small Business Success*, ENTREPRENEURSHIP & REG’L DEV., 231-46, (2010). [hereinafter “Kilkeny”].

¹⁵ *Id.*

¹⁶ *Id.*

The Reciprocal Relationship between Small Businesses and Community¹⁷



Within nontraditional communities, such as those seen in SBA ED programs, small business accelerators, and community development partnerships, the reciprocal relationship remains the same. While small businesses or entrepreneurs benefit from participating in these programs, the programs benefit as well. The SBA ED programs, for example, rely on their graduate businesses to enhance the community's network and provide expertise to the next generation of small businesses. SBDCs and WBCs often seek out businesses who graduated from their curriculum to come back and serve as seminar speakers while many previous SCORE mentees later go on to serve as volunteer mentors. In the case of nontraditional communities, the more resources the community is able to provide their participating small businesses, the more likely those businesses are to succeed.

III. Areas for Resource Development

Given the importance of the reciprocal relationship between communities and small businesses in supporting local economies, what can be done to support this relationship? For traditional economies, specific pro-business policies provide reduced barriers to entry for small businesses. Examples of this type of local or state policy include streamlined zoning processes, business diversity ordinances, and economic development incentive programs.¹⁸

To foster nontraditional communities, a greater emphasis can be made to ensure that entrepreneurs and small business owners throughout the country are aware of the resources available to them. Increased outreach of local SBA ED programs could allow a greater number of aspiring entrepreneurs to seek managerial training or mentorship, further enhancing the ED community. The continued support of private sector small business solutions, such as accelerators or community development partnerships, is also important. Highlighting the opportunities these programs provide to small business can only serve to further increase their reach and impact.

¹⁷ Kilkenny, *supra* note 14, fig.1.

¹⁸ Stacy Mitchell, *8 Policy Strategies Cities Can Use to Support Local Businesses*, INST. FOR LOCAL SELF-RELIANCE (Aug. 28, 2017), <https://ilsr.org/8-policy-strategies-cities-can-use-to-support-local-businesses/>.

IV. Conclusion

The relationship between communities and small businesses is reciprocal; wherein both entities must support the other for collective success. Considering both traditional and nontraditional communities, when small businesses are successful, the communities are also successful. Traditional communities benefit from small businesses that return revenue to the local economy, a trend known as the multiplier effect. Within nontraditional communities, such as SBA ED programs, increasing the resources and training opportunities within the community benefits small businesses.

This hearing will offer Members an opportunity to explore this relationship, and consider the ways resources supporting small businesses and communities can be expanded.