

# UNIVERSITY OF HAWAI‘I SYSTEM

## LEGISLATIVE TESTIMONY



UOH 220

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Economic Development & Taxation

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by

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## UOH 220 HAWAII'S SMALL BUSINESS DEVELOPMENT CENTER

### I. Introduction

#### A. Summary of program objectives.

**Summary of Program Objectives:** SBDC's primary objective is to support a viable state economy by providing entrepreneurs and small businesses the support, information and skills needed to ensure that each business is able to achieve sustainable success.

**Federal-State Program.** The Hawai'i Small Business Development Center Network (SBDC) is sponsored by and receives funding from the U.S. Small Business Administration (SBA). By federal mandate, SBDC is required to be affiliated with a university or community college. University of Hawai'i at Hilo (UHH) has been designated as SBDC's host institution.

**Matching Federal-State Funds.** In order to obtain SBA funds, SBDC is required to receive a dollar-for-dollar match for its federal funds from the State of Hawai'i.

**Program Objective.** SBDC's program objective is to provide high quality substantive counseling, training and research services in the areas of startup, retention, and expansion to entrepreneurs and small businesses. The SBDC builds the foundation of a sustainable economy by assisting entrepreneurs and small businesses to access capital, develop management capabilities and build financial skills to make their businesses thrive. SBDC's one-on-one consulting emphasizes education and guidance in finding practical solutions to business problems.

**The Statewide Network.** SBDC operates four Service Centers on each of the respective islands: Hawai'i, Kaua'i, Maui, and O'ahu. SBDC also operates a Business Research Library which is located in Kihei on Maui, but is accessible electronically statewide. The State Office is in Hilo where its host institution, UHH, is located.

**SBDC Service Centers & Business Research Library.** The four service centers provide consulting and training to entrepreneurs and small businesses. The Business Research Library provides research customized for each client.

#### B. Description of Small Business Development Center (SBDC) Program Objective. The SBDC program objective, when placed within the context of the laws, regulations, and provisions for accreditation, is as follows:

**Program Objective.** SBDC's primary objective is to support a viable state economy by providing entrepreneurs and small businesses the support, information and skills needed to ensure that each business is able to achieve sustainable success

**Summary of the Objectives and Activities as Discussed in the Multi-Year**

**Program and Financial Plan:** SBDC will provide consulting to approximately 1,000 small businesses; conduct 60-80 training workshops; and respond to 1,500 requests for business research. SBDC, with the additional requested funding support, establish a West Hawai'i Service Center; increase consulting services in its high demand centers; establish an E Business Division; and fill the vacant research librarian position at the Business Research Library.

**C. How the SBDC Intends To Meet Its Objectives within the Current Fiscal Biennium.**

**Program Objective.** The program objective is based upon an assessment of the role that small businesses play in the economy of Hawai'i and upon the needs of small business owners and those who wish to start new business ventures. Its execution is dependent upon promoting the conditions under which small businesses thrive through:

***Develop Entrepreneurship Knowledge and Skills.*** Continue to increase entrepreneurship knowledge and skills within the small business community and the wider community through one-on-one substantive consulting, training workshops and customized business research.

***Increase Access to Capital.*** Continue to increase, on behalf of small businesses, access to capital at reasonable costs and awareness of what capital is available.

***Increase Access to Information and Technology.*** Continue to promote access for small businesses to the information and technology they need in order to compete in today's increasingly competitive and global marketplace through our Business Research Library and other businesses resources.

***Promote Sustainability.*** Continue to promote the sustainability of small businesses by increasing their awareness of the need for continuous quality improvement through the use of the Malcolm Baldrige criteria and similar criteria for achieving world-class quality in operations.

**Program Development Objectives:** Continuing to promote the achievement of the above *program objective* through the achievement of the *program development objectives* of (a) completing the development of a statewide delivery system for the Hawai'i SBDC Network and (b) matching available federal dollars on no less than a 2:1 ratio.

**Strategy:** The strategy for achieving each of these program development objectives is for the SBDC to engage in the following tactics:

**Statewide Delivery System.** To re-establish a West Hawai'i Center in Kailua-Kona in 2008 and to expand services elsewhere in the state in order to achieve parity in service statewide, but especially on O'ahu which is underserved. To increase consulting capacity to meet client demands by adding a full time permanent consultant to the O'ahu Service Center and one part time permanent consultant to the Kaua'i Service Center and another to the Hilo Service Center.

**Matching Federal Dollars.** To continue to achieve a ratio of no less than 2 federal dollars for every 1 dollar of state funds. In order to achieve a ratio greater than 1:1, funding by the State Legislature must be adequate to match federal dollars other than those proffered by the SBA.

**Continuous Quality Improvement.** To pursue a continuous quality improvement program using the Malcolm Baldrige criteria developed by the National Institute of Standards and Technology (NIST) of the U.S. Department of Commerce.

**Client Needs Assessment.** To conduct annually a statewide, professional assessment of the needs of small business owners and managers. The results of this survey are used to set strategic direction, goals, and tactics.

**Program Assessment Objectives:** Measure the achievements of the Hawai'i SBDC Network (a) by setting goals (i) for activity measures and (ii) for program effectiveness measures, (b) by measuring the achievement of those goals, and (c) by conducting independent economic impact studies.

**Strategic Tactics:** The strategy for achieving each of these program assessment objectives is for the Hawai'i SBDC Network to engage in the following tactics:

**Goal Setting.** Goals have been set in each of the areas indicated.

**Goal Measurement.** The Hawai'i SBDC Network uses a computerized and internet-based Client Data Information System (CDIS) for tracking on a statewide basis all of its activities and reporting them for management purposes. Additionally, all clients of the Hawai'i SBDC Network are annually surveyed confidentially for feedback regarding the quality of services received.

**Economic Impact Study.** Each year, the Hawai'i SBDC Network contracts an independent professional economist to determine different aspects of the economic impact of the Hawai'i SBDC Network's activities.

**C. Program Performance Results:**

**Performance Results Achieved in FY 2007 and Estimated for FY 2008**

	FY 2006-2007		FY 2007-2008	
	<u>Planned</u>	<u>Achieved</u>	<u>Planned</u>	<u>Estimated</u>
Total Counseling Cases	1247	1135	1250	1247
Total Counseling Hours Long Term Cases	5803	3494	5803	3700
Total Training Events	69	68	75	60
Total Training Hours	*6000	606	*6000	750

*\*The number identified in the State Of Hawai'i Data Collection form was incorrect. The number 6000 should have been 600. Thus the discrepancies between the planned/actual/achieved/estimated numbers are significant.*

**Program Effectiveness Measures**

	FY 2006-2007	FY 2007-2008	FY 2008-2009
	Actual	Planned	Planned
Annual Economic Impact (\$Millions)	20.1	21	24
Ratio of State Dollars Invested into the Program to New State Taxes Generated From the Program in the First Year	1: .42	1: .57	1: .88
Ratio of State Investment to Total of Counseling and Training Hours	\$58	\$60	\$63
Clients' Perceived Quality of Consulting and Training	85%	90%	90%

**How These Results Relate to the SBDC's Objectives:** The results of the activities of the SBDC in the foregoing table demonstrate that SBDC is effective in meeting activity goals for counseling hours, training events, and training hours. Moreover, SBDC is efficient in the use of the state's resources to create a viable annual economic impact and to provide substantial return on the state's investment in the form of new taxes. The efficiency of SBDC's results is directly attributable to its effectiveness in delivering its program to its clients despite SBDC's limited capacity and client demand for services.

## How the Effectiveness of the SBDC Program Is Measured:

**Types of Measurements.** The performance results shown above are aggregated from the entire range of results collected by the SBDC through its quarterly and annual reporting from its management information system, its annual client survey, and its economic impact study conducted annually. The Hawai'i SBDC Network measures both results of activities and outcomes from activities. These activity and outcome results, then, are ranked against goals, tracked as historical Hawai'i SBDC Network trends, and compared against benchmarks from other state SBDC Programs (where available). This process is reviewed annually. As sufficient historical data becomes available, goals are being set or revised for future years.

**Actions Taken To Improve Performance.** SBDC has taken three primary steps to improve its performance: (1) It has conducted an intensive strategic planning process with all statewide employees and has incorporated the strategic results of this process into its organizational systems, (2) it has obtained a fourth generation management information system for collecting data and managing the organization to goals and performance criteria, and (3) it is conducting an independent economic impact study on an annual basis.

**Modifications to Program's Performance Measures.** There have been no modifications made to performance measures.

### Problems and Issues:

- a. Two primary issues have created challenges for SBDC:
  - i. State Director Vacancy. The vacancy created by the retirement of the former State Director has posed significant challenges for SBDC. UHH was notified in mid-February 2007 that the former State Director planned to retire effective June, 30, 2007. Because of the delay in establishing a recruitment process, the interview process for the new State Director has just been completed. It is anticipated that, due to this delay, a State Director will assume the director position in February or March 2008. As a result, SBDC will have been under interim leadership for over eight months. During this period, significant change has been instituted; however, some measures that required implementation did not proceed. Two measures that were not implemented were the hire of an Associate State Director and the West Hawaii Director. The Interim State Director felt that the hire of both positions should be under the purview of the permanent State Director. As a result, SBDC's ability to elevate its presence; enhance operational efficiency; and meet the client demands has been stagnated.
  - ii. Limited Capacity in Meeting Client Demands. One primary challenge for SBDC is its ability to meet client demands. Each Service Center has only one full time consultant. With the demand for services, the approximate client wait period for each center is five-six weeks.
- b. Program change recommendations to remedy problems. SBDC is developing a client classification system and modifying its electronic services capability to address the issue of limited capacity. However, these measures will only reduce the approximate client wait period minimally. The only direct program change that will

address this issue is to increase capacity; hire additional permanent consultants. SBDC's request for an increase in funding targets this program change.

**D. Expenditures for FY08:**

Provide the appropriation data, transfers, restrictions, available resources, and the estimated expenditures for FY08. For new Program I.D.'s, please present the data as best as can be determined.

- a. Program ID Transfers: The only transfers that have occurred within the Program I.D. have been between the Personnel and Other Expenditures categories. This transfer was due to the vacancy of the State Director position which is a UH position. The Interim State Director is an RCUH employee and her position is funded via the Other Expenditures category. The impact on the program has been negligible.

**E. Supplemental Budget Requests for FY09:** \$ 567,910 increase in the Other Expenditures category.

- a. Workload or program request/description:
  - i. \$113,260 to re-establish a consulting and training program in Kailua-Kona to service the West Hawai'i entrepreneurs and small businesses; and
  - ii. \$187,400 to add one full time business consultant in the SBDC O'ahu Center and two half time consultants, one assigned to the Kaua'i SBDC and another assigned to the East Hawai'i SBDC, to address the demand for consulting services and reduce the five to six week waiting period in each respective office; and
  - iii. \$172,400 to create two Businesses Development Associate positions and establish SBDC's E Division to support entrepreneurial initiatives premised on the generation of revenues and enhancing SBDC's capacity to serve Hawaii's small business community; and
  - iv. \$69,850 to fill the vacant research librarian position at the SBDC Business Research Library to offset the client demand for research services and provide a research support arm for the E Division.