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WASHINGTON, D.C. 20548

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RELEASED

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

JULY 24, 1979

B-114835



110204

The Honorable Joseph M. McDade
Ranking Minority Member
Committee on Small Business
House of Representatives

File 5300

ACC 000002

Dear Mr. McDade:

In an April 23, 1979, letter, you requested that we examine certain operations of the Small Business Administration's (SBA's) program for Small Business Development Centers (SBDCs) at California State University, Chico, California; the University of Georgia, Athens, Georgia; and the University of Southern Maine, Portland, Maine. *JD*

Our review of the SBDCs covered March 1977 through March 1979. We used proforma telephone questionnaires to obtain selected clients' perceptions (117 total clients) on the assistance they received and to obtain perceptions of some private firms providing services similar to the SBDCs. *were used to examine*

Because of a limited scope and inconclusive results, we cannot assess the overall effectiveness of the SBDC program. As arranged with your office, this letter merely summarizes the observations we made during our briefing with your office on June 29, 1979. Enclosures I through XV contain the results of our review which were presented at the briefing.

OBSERVATIONS

- (1) Information developed at the three SBDCs is not strongly positive or negative.

Although we found that SBDCs are using SBA funds for program purposes, only 20 to 30 percent of expenditures examined at ^{Portland and Athens} and Athens, respectively, were used for direct services to clients. (See enc. XV.) Client responses to our questionnaire tended to be in favor of the program, while private firms providing similar services tended to express concerns about the program. (See encs. VIII to XI.)

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Letter Report

- (2) SBDCs' data systems did not provide an adequate historical basis for measuring program progress.

During the first year of the program, none of the SBDCs had data systems to document, collect, and summarize client counseling activities. Athens started a computerized system in early 1978, but neither Portland nor Chico have instituted a system--relying primarily on client files. As a result, we were not able to significantly compare the first year of operations with the second year. (See encs. II and V.)

- (3) Many clients judged the SBDCs' assistance as being of "moderate use" to "little or no use."

In responding to the question of how much use the SBDCs' assistance was to them, 56 percent of the 117 clients answered in categories ranging from "moderate use" to "little or no use." Forty-four percent answered "great use" to "very great use." (See enc. IX.)

- (4) Many assisted clients would be unwilling to pay for SBDC service.

Fifty-six percent of the 115 clients responding to the question of how much they would have been willing to pay for the SBDC assistance stated they would not have been willing to pay for the assistance. Some clients said they could not afford to have done so and others did not feel the assistance provided was worth paying for. Another 22 percent would have been only willing to pay up to \$25 for the assistance. (See enc. X.)

- (5) Private firms providing similar services were frequently negative toward the SBA/SBDC program.

Interviews with 14 private firms in areas served by the Athens and Portland SBDCs who provide services similar to the SBDCs resulted in 7 expressing concerns over the SBA/SBDC program. The concerns included:

Private Firms Concerns ✓ --SBDC counselors may lack expertise.

✓ --The Government should not be in this type of business.

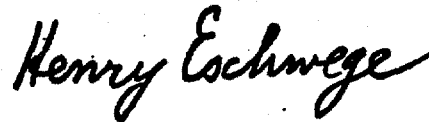
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- Tax dollars should not be used to foster competition.
- The program cannot be justified on cost benefits basis.
- It may be unethical to provide free services. (See enc. XI.)

In addition to the above observations, we noted that the lack of adequate SEA criteria regarding the size of businesses assisted may result in SBDC assistance being provided to ineligible firms and individuals. Also, small businesses not assisted by the SBDCs may be adversely affected financially by the assistance provided to competing firms and to individuals contemplating going into competing businesses.

As arranged with your office, this report will be released 30 days after the issuance date unless you publicly release its contents before then.

Sincerely yours,



Henry Eschwege
Director

Enclosures - 15

START OF OPERATION OF SBA'S
SMALL BUSINESS DEVELOPMENT CENTERS

<u>SBDC/satellite</u>	<u>Effective date 1st contract</u>	<u>Date satel- lite opened</u>	<u>SBA-SBDC funding to March 1979</u>
<u>University of Georgia (Athens)</u>	<u>March 1977</u>		<u>a/\$460,000</u>
Albany		July 1978	
Clayton		July 1978	
Statesboro		Sept. 1978	
Atlanta		Feb. 1979	
<u>California State University (Chico)</u>	<u>March 1977</u>		<u>b/\$288,000</u>
Quincy		Oct. 1978	
Weed		Oct. 1978	
Yuba City		Oct. 1978	
Redding		Nov. 1978	
Red Bluff		Jan. 1979	
<u>University of Southern Maine (Portland)</u>	<u>March 1977</u>		<u>\$305,000</u>
Farmington		Oct. 1978	
Machias		May 1979	

a/Plus: \$80,000 special group emphasis.

b/Plus: \$35,000 special group emphasis.

NUMBER OF CLIENTS SERVED PER YEAR

<u>SBDC</u>	<u>Service-type</u>	<u>Volume of activity</u>	
		<u>Oct. 1977- Sept. 1978</u>	<u>Oct. 1978- Mar. 1979</u>
<u>Athens:</u>	<u>Counseling</u> - Number of clients	390	399
	<u>Training</u> - Number of courses	88	189
	- Number of participants	2,672	3,323
	<u>Limited contacts</u> - Number	419	795
<u>Chico:</u>	<u>Counseling</u> - Number of clients	453	230
	<u>Training</u> - Number of courses	38	18
	- Number of participants	1,716	746
	<u>Limited contacts</u> - Number	-	-
<u>Portland:</u>	<u>Counseling</u> - Number of clients	182	90
	<u>Training</u> - Number of courses	4	12
	- Number of participants	218	401
	<u>Limited contacts</u> - Number	343	155

TYPES OF BUSINESSESRESPONDING TO OUR QUESTIONNAIRE

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Owner/manager of business	40 (70%)	4 (20%)	19 (48%)	63 (54%)
In business as an individual	- (-%)	8 (40%)	1 (2%)	9 (7%)
An employee of business	2 (4%)	- (-%)	- (-%)	2 (2%)
An individual going into business	15 (26%)	8 (40%)	20 (50%)	43 (37%)
	<u>57</u>	<u>20</u>	<u>40</u>	<u>117</u>
Total	(100%)	(100%)	(100%)	(100%)

NUMBER OF FULL-TIME AND PART-TIMEEMPLOYEES OF CLIENTS RESPONDING

<u>Description</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Total businesses in sample	42	12	20	74
Average number of employees	12	2	4	8
<u>Number of employees:</u>				
Less than 10	32	11	19	62 (84%)
11 to 20	5	1	1	7 (9%)
21 to 50	4	-	-	4 (6%)
Over 50	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u> (1%)
Total	<u>42</u>	<u>12</u>	<u>20</u>	<u>74</u> (100%)

TYPES OF BUSINESSES USING THESERVICES OF SBDCs

<u>Type of business</u>	<u>Athens</u> <u>Oct. 77-</u> <u>Mar. 79</u>	<u>Chico</u> <u>Oct. 78-</u> <u>Mar. 79</u>	<u>Portland</u> <u>Sept. 77-</u> <u>Mar. 79</u>	<u>Total</u>
Manufacturing	64(14%)	10(8%)	41(14%)	115(13%)
Service	86(19%)	60(45%)	103(36%)	249(29%)
Retail	141(31%)	45(34%)	110(38%)	296(34%)
Wholesale	34(7%)	10(8%)	3(1%)	47(5%)
Other	<u>130(29%)</u>	<u>7(5%)</u>	<u>32(11%)</u>	<u>169(19%)</u>
Total	<u>a/455(100%)</u>	<u>b,c/132(100%)</u>	<u>d/289(100%)</u>	<u>b/876(100%)</u>

a/Athens center only.

b/Total types include 25 for Chico clients expressing more than one category.

c/Includes only 107 of 230 clients, at Chico.

d/Includes 39 Small Business Institute cases.

TYPES OF CLIENTS RESPONDING TO OUR INQUIRY

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Manufacturing	6(14%)	1(6%)	4(15%)	11(13%)
Service	13(31%)	5(28%)	6(22%)	24(27%)
Retail	13(31%)	10(55%)	8(30%)	31(36%)
Wholesale	3(7%)	1(6%)	5(18%)	9(10%)
Other	<u>7(17%)</u>	<u>1(5%)</u>	<u>4(15%)</u>	<u>12(14%)</u>
Total	<u>42(100%)</u>	<u>a/18(100%)</u>	<u>a/27(100%)</u>	<u>87(100%)</u>

a/Some businesses said more than one category.

LENGTH OF TIME CLIENTS RECEIVINGASSISTANCE FROM THE SBDCS. HAVE OPERATED

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Less than 1 year	8(19%)	2(16%)	2(10%)	12(16%)
1 to 2 years	12(29%)	3(25%)	7(35%)	22(30%)
2 to 5 years	8(19%)	5(42%)	5(25%)	18(24%)
5 to 10 years	6(14%)	2(17%)	3(15%)	11(15%)
Over 10 years	<u>8(19%)</u>	<u>-</u>	<u>3(15%)</u>	<u>11(15%)</u>
Total	<u>42(100%)</u>	<u>12(100%)</u>	<u>20(100%)</u>	<u>74(100%)</u>

KINDS AND PERCENTAGE OF COUNSELINGSERVICE PROVIDED OCT. 1978 - MAR. 1979

<u>Category</u>	<u>a/Athens</u>	<u>b/Chico</u>	<u>Portland</u>
Total counseling	<u>4,659</u> (Hours)	<u>107</u> (Clients)	<u>248</u> (Actions)
<u>Percent by area:</u>			
Finance/accounting	46%	39%	33%
Marketing	20%	8%	20%
Starting business/ business planning	13%	15%	20%
Sales/advertising	-	8%	10%
Risk management	5%	-	-
Management	6%	-	-
Merchandising	-	5%	-
Other	<u>10%</u>	<u>25%</u>	<u>17%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

a/Athens center only.

b/107 of 230 clients served.

CLIENT RESPONSES TO QUALITYOF SERVICE PROVIDED BY SBDC EMPLOYEES

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Very satisfied	51(89%)	12(60%)	20(50%)	83(71%)
Generally satisfied	5(9%)	7(35%)	17(43%)	29(25%)
Neither satisfied nor dissatisfied	1(2%)	-	1(3%)	2(2%)
Generally dissatisfied	-	1(5%)	1(2%)	2(2%)
Very dissatisfied	-	-	1(2%)	1(-%)
Total	<u>57(100%)</u>	<u>20(100%)</u>	<u>40(100%)</u>	<u>117(100%)</u>

EXTENT TO WHICH SBDC EMPLOYEE HADSUFFICIENT BACKGROUND TO DEAL WITH CLIENT'S PROBLEM

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Very great	16(29%)	5(26%)	5(12%)	26(23%)
Great	18(32%)	4(21%)	11(28%)	33(29%)
Moderate	16(29%)	6(32%)	19(47%)	41(36%)
Some	1(1%)	-	2(5%)	3(2%)
Little or none	5(9%)	4(21%)	3(8%)	12(10%)
Total	<u>56(100%)</u>	<u>19(100%)</u>	<u>40(100%)</u>	<u>115(100%)</u>

CLIENT RESPONSES TO TIMELINESS
OF ASSISTANCE PROVIDED

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Very satisfied	30(53%)	7(35%)	10(25%)	47(40%)
Generally satisfied	19(33%)	11(55%)	21(53%)	51(44%)
Neither satisfied nor dissatisfied	1(2%)	1(5%)	7(18%)	9(8%)
Generally dissatisfied	4(7%)	1(5%)	1(2%)	6(5%)
Very dissatisfied	<u>3(5%)</u>	<u>1(5%)</u>	<u>1(2%)</u>	<u>4(3%)</u>
Total	<u>57(100%)</u>	<u>20(100%)</u>	<u>40(100%)</u>	<u>117(100%)</u>

USEFULNESS OF ASSISTANCE PROVIDED BY THE SBDC

IN MEETING CLIENT'S OBJECTIVE FOR SEEKING THE ASSISTANCE

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Very great use	15(26%)	2(10%)	4(10%)	21(18%)
Great use	12(21%)	5(25%)	13(33%)	30(26%)
Moderate use	13(23%)	10(50%)	11(27%)	34(29%)
Some use	6(11%)	2(10%)	4(10%)	12(10%)
Little or no use	<u>11(19%)</u>	<u>1(5%)</u>	<u>8(20%)</u>	<u>20(17%)</u>
Total	<u>57(100%)</u>	<u>20(100%)</u>	<u>40(100%)</u>	<u>117(100%)</u>

CLIENT RESPONSES TO WHETHER SBDCSERVICES SHOULD BE EXPANDED OR CURTAILED

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Greatly expanded	8(15%)	4(20%)	3(8%)	15(13%)
Expanded somewhat	31(56%)	7(35%)	22(55%)	60(52%)
Maintained at current level	12(22%)	9(45%)	12(30%)	33(29%)
Reduced somewhat	1(2%)	-	1(2%)	2(2%)
Greatly reduced or discontinued	3(5%)		2(5%)	5(4%)
Total	<u>55(100%)</u>	<u>20(100%)</u>	<u>40(100%)</u>	<u>115(100%)</u>

THE AMOUNT CLIENTS WOULD BE WILLING TO PAYTHE SBDC FOR ASSISTANCE PROVIDED

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
None	35(61%)	6(33%)	23(58%)	64(56%)
Up to \$25	7(12%)	6(33%)	12(30%)	25(22%)
\$26 to \$50	1(2%)	2(11%)	2(5%)	5(4%)
\$51 to \$100	6(11%)	1(6%)	2(5%)	9(8%)
Over \$100	8(14%)	3(17%)	1(2%)	12(10%)
Total	<u>57(100%)</u>	<u>18(100%)</u>	<u>40(100%)</u>	<u>115(100%)</u>

PRIVATE SERVICE SOURCES
AVAILABLE IN THE COMMUNITY

SBDC

Athens Main area of counseling: Financing, accounting, marketing, and risk management

Location selected: Athens

Number and type
of firms selected: One Certified Public Accountant (CPA), two insurance agents, one bank, and one bookkeeping service

- Responses:
- (1) Insurance agents and bookkeeping service are most apt to provide service.
 - (2) CPA and insurance agents concerned about the use of graduate students.
 - (3) Insurance agents, bank, and bookkeeping service are against the concept.
 - (4) Bank believes it will be used as a prop for the lack of efficiency and ability.

Chico

Comparable information was not obtained for the Chico SBDC.

Portland Main area of counseling: Financial analysis, marketing research, sales/promotion and advertising, and starting a business

Location selected: Portland and Lewiston

Number and type
of firms selected: Two banks, three management consultants, and four CPAs

- Responses:
- (1) CPAs are most apt to service. One concern is "something for nothing."
 - (2) Management consultants concern is with the competence of counselors. Do not believe the Government should be in this business.

HOW CLIENTS LEARNED OF THE PROGRAM

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland (note a)</u>	<u>Total</u>
Television or radio	-	-	-	-
Magazine or newspaper	2(3%)	-	7(35%)	9(9%)
Another small business	4(7%)	3(15%)	-	7(7%)
SBA or the SBDC	21(37%)	2(10%)	1(5%)	24(25%)
Other (note b)	<u>30(53%)</u>	<u>15(75%)</u>	<u>12(60%)</u>	<u>57(59%)</u>
Total	<u>57(100%)</u>	<u>20(100%)</u>	<u>20(100%)</u>	<u>97(100%)</u>

a/Asked of the 20 in business.

b/Athens - Friends, associates, university.
Chico - University, banks, unknown.
Portland - Friends.

SMALL BUSINESSES' AWARENESSOF THE SBDC PROGRAM

<u>SBDC</u>	<u>Geographic areas</u>	<u>No. of businesses surveyed</u>	<u>Responses</u>	
			<u>Yes</u>	<u>No</u>
Athens:	Athens	15	<u>a/7(47%)</u>	8(53%)
Chico:	Chico	10	5(50%)	5(50%)
	Redding	10	2(20%)	8(80%)
Port-land:	Portland	20	4(20%)	16(80%)
	<u>b/Lewiston-Auburn</u>	<u>10</u>	<u> </u>	<u>10(100%)</u>
Total		<u>65</u>	<u>18(28%)</u>	<u>47(72%)</u>

a/Five vaguely aware of program.

b/Not a satellite area.

CLIENT RESPONSES REGARDING SUFFICIENCY OF INFORMATIONAVAILABLE TO SMALL BUSINESS ABOUT THE SBDC PROGRAM

<u>Category</u>	<u>Athens</u>	<u>Chico</u>	<u>Portland</u>	<u>Total</u>
Definitely <u>Yes</u>	-	-	-	-
Probably <u>Yes</u>	7(12%)	5(25%)	1(2%)	13(11%)
Undecided	9(16%)	3(15%)	4(10%)	16(14%)
Probably <u>No</u>	18(32%)	6(30%)	14(35%)	38(32%)
Definitely <u>No</u>	<u>23(40%)</u>	<u>6(30%)</u>	<u>21(53%)</u>	<u>50(43%)</u>
Total	<u>57(100%)</u>	<u>20(100%)</u>	<u>40(100%)</u>	<u>117(100%)</u>

SBA-SBDC EXPENDITURE CATEGORIES

<u>SBDC/expenditure category</u>	<u>Expended (nearest \$1,000)</u>		
	<u>Total</u>	<u>Direct service</u>	<u>Other</u>
<u>Athens</u> (Oct. '77-Mar. '79)	\$389,000 (<u>100%</u>)	\$116,000 (<u>30%</u>)	\$273,000 (<u>70%</u>)
Counseling salaries	78,000	78,000	-
Training salaries	25,000	25,000	-
Travel	30,000	13,000	17,000
Program administration, development, and overhead	256,000	-	256,000

Chico

Comparable information was not obtained for the Chico SBDC.

<u>Portland</u> (Mar. '78-Mar. '79)	\$135,000 (<u>100%</u>)	\$ 27,000 (<u>20%</u>)	\$108,000 (<u>80%</u>)
Counseling salaries	21,000	21,000	-
Training salaries	3,000	3,000	-
Travel	3,000	3,000	-
Program administration, development, and overhead	108,000	-	108,000