

Final Report

**Santa Clara County Small Business
Study—Phase II Final Report**

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July 10, 2006

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Study—Phase II Final Report**

Prepared for

work²future
opportunity • jobs • success

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SECTION ES.

Executive Summary

In fall 2005, BBC Research & Consulting (BBC) conducted a study for the Silicon Valley Workforce Investment Network (SVWIN) to determine business assistance needs of small firms in Santa Clara County. BBC found needs among small business owners similar to those in other metro areas and recommended that SVWIN work with its partners to make business assistance resources more widely known to entrepreneurs. BBC concluded that assisting start-ups and existing small businesses could be an important part of local economic development efforts.

In the course of conducting this research, BBC found that there are about 130,000 small businesses in Santa Clara County (firms with fewer than 20 paid employees that file tax returns). Although this figure seems large, it is actually less than one would expect for metropolitan areas of similar size. Further, the small business component of the local economy is a less-important source of jobs in the San José metro area compared with other cities. About 14 percent of people working in Santa Clara County are employed by firms with fewer than 20 employees compared with 19 percent in California. When ranking over 300 metro areas in terms of small businesses' share of total employment, the San José metro area ranks 10th from the bottom.

The lower than expected number of firms and the relatively low share of employment in small firms fly in the face of a commonly-held image of Silicon Valley. Researchers throughout the United States and the world have touted Silicon Valley as a hotbed of entrepreneurship. Many have pointed to unique local conditions that foster firm start-ups in the high-tech or innovation sectors.

How then to reconcile the statistics on small businesses with the image of Silicon Valley as a leading center of entrepreneurship? The answer may give more insights on how, or whether, to support entrepreneurs and small businesses in the San José area. This second phase of the Santa Clara County Small Business Study researches these issues.

Key Questions

This report explores four areas of questions:

- Overall, how does the San José Metro Area compare with other metropolitan areas in the importance of small businesses in the local economy?
- What are the roles of entrepreneurship and small businesses in the Silicon Valley high-tech sector?
- What is the condition of small businesses and entrepreneurship in local sectors outside of high-tech?
- What actions should SVWIN take based on these research findings? What are best practices for elements of a network that supports entrepreneurship?

Research Approach

BBC answered these questions through statistical analysis of data from federal agencies, review of other researchers' studies on the Silicon Valley economy, telephone surveys of more than 1,000 adults in the San José metro area concerning entrepreneurship, research on the informal small business sector, over 230 executive interviews with business owners conducted by six local ethnic chambers, and research into new approaches to assisting entrepreneurs.

Key Findings

Results of this research effort can be summarized around six key findings:

1. Silicon Valley is a center for high-tech start-ups. Over many decades, growth of the local high-tech industry has principally come from new firms, not old firms.

“High-tech” in Santa Clara County may have meant semi-conductors in the 1960s, computers in the 1970s and 1980s, and harnessing Internet technology in the 1990s, each of which are very different industries. The firms formed in one wave of the technology cycle were usually not the firms that responded to the new waves. The San José metro area high-tech economy reinvents itself through new rapid-growth firms.

2. Although new firms are behind the growth of the high-tech sector, small businesses are relatively unimportant in Silicon Valley high-tech. The support network for high-tech entrepreneurship is not designed to help small businesses, it focuses on “infant giants.”

Businesses with fewer than 20 employees account for a relatively small share of high-tech employment in Silicon Valley. The number of high-tech businesses in Santa Clara County is also low relative to other areas. For example, among highly-educated people in the Santa Clara County professional, scientific and technical services industry, just 14 percent are business owners, about one-half the rate as for California as a whole.¹

If the success of high-tech in Silicon Valley over many decades is not due to high rates of entrepreneurship and development of small businesses, what is it about? The prevailing culture in Silicon Valley high-tech favors “infant giants” rather than small firms.² Infrastructure and support are available for the “next big idea” and firms positioning themselves for rapid growth. In general, being a small business in the Silicon Valley high-tech industry is just a short-lived stage toward becoming big or leaving the industry (dying, merging or being acquired).

¹ BBC Research & Consulting. 2006 using 2000 U.S. Census 5% Public Use Micro-sample Data. Available at: <http://www.census.gov/Press-Release/www/2003/PUMS5.html>

² Thomas F. Hellmann. 2000. “Venture Capitalists: The Coaches of Silicon Valley.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 276-294.

3. There is little about the forces of high-tech entrepreneurship that carries over to other sectors of the Silicon Valley economy.

Reasons for the success of the high-tech industry in the San José metro area range from a mobile labor force to Stanford and other universities to the private sector support network for high-tech start-ups. Few of these advantages apply to other local industries.

The high wage rates and cost of living that result from the past success of the local high-tech sector may, in fact, work against other new firms or small businesses. In interviews with local small business owners, the cost of real estate and taxes were also cited as reasons why Silicon Valley might not be a good place to start a business.

4. The San José metro area small business sector is relatively small outside of the high-tech industry.

Small businesses are a relatively small minor contributor to the local economy outside of high-tech. Rates of business ownership in these industries are low as well.

5. Even though the small business sector in Silicon Valley is relatively small and rates of business ownership lag other areas, entrepreneurship is important.

Viewed statically, small businesses account for a small share of the San José metro area employment. A snapshot of business by size, however, ignores the dynamic nature of a regional economy. Even though other sectors may not rely on “gazelle” firms for growth as much as found in the high-tech industry, employment growth is usually generated by start-ups plus small businesses that grow into large firms. This is true across California.

Entrepreneurship is also important because of the sheer number of potential business owners. About 95,000 San José metro area residents are in the process of starting new businesses based on a random household telephone survey completed as part of this study (9 percent of Silicon Valley adults, about the same as California). An additional 400,000 adults in the San José metro area have thought about starting a business or hold owning a business as a personal goal (40 percent of the adult population, about the same as California as a whole). San José adults appear to be excited about the prospects of owning their own business rather than being pushed into entrepreneurship by economic hardship.

Figure ES-1.
New and potential
entrepreneurs in the San
José metro area, 2006

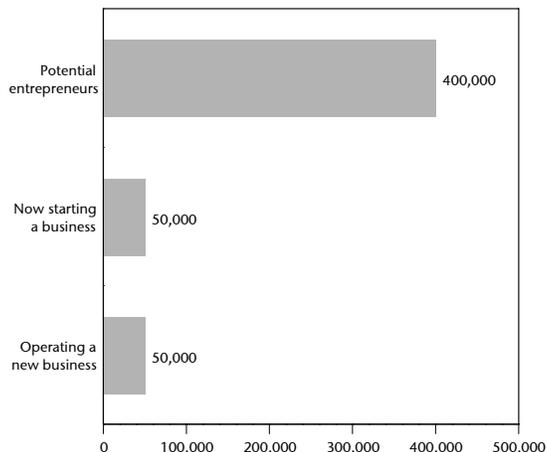
Note:

Potential entrepreneurs are Santa Clara County adults who have thought about opening a business or have owning a business as a personal goal.

New businesses are those operating for less than four years.

Source:

BBC Research & Consulting form 2006
Santa Clara County Household Survey.



6. San José metro area entrepreneurs need assistance, but rarely turn to local business assistance providers.

Including people who have thought about starting a business or view owning a business as a personal goal, the potential market for business start-up assistance is about 500,000 adults in the San José metro area. A very small fraction of these individuals approach local business services providers for assistance.

There is a gap between the entrepreneur and the knowledge necessary to successfully start, operate, expand and eventually retire from or sell a business. Local entrepreneurs need to more quickly and easily close this gap. Entrepreneurs also desire help in anticipating issues they will face in order to avoid the dilemma of “you don’t know what you don’t know.”

A New Integrated System of Assisting Entrepreneurs

Based on the findings of Phases I and II of the small business study, BBC recommends that SVWIN, business services providers, local governments, chambers, universities and others work together to build an integrated system that better supports entrepreneurship in Silicon Valley. The body of this report outlines a vision of this network that includes “brick and mortar” and virtual elements to help potential entrepreneurs, people now starting businesses and existing business owners.

The new direction for this network would require a shift in thinking from the typical small business assistance system (in Silicon Valley or elsewhere):

- Many business assistance networks focus on existing firms. SVWIN and its partners should expand its target market to include people currently in the process of starting businesses plus those who are thinking about starting a business in the future. The size of the target population, about 500,000 people, is a major consideration when designing delivery systems. The overall philosophy should be to help many thousands of entrepreneurs in small ways instead of selecting a few entrepreneurs for intensive help.
- Providing entrepreneurs information and knowledge to make better decisions and respond faster to opportunities should be the focus of the assistance. To bridge the gap between entrepreneurs and business knowledge, SVWIN and its partners will need to develop systems that anticipate entrepreneurs’ problems and deliver the needed information at the ideal time for addressing these challenges.
- SVWIN and its partners should invest in the virtual aspects of this network in order to meet the size of the demand for business assistance and address the “on-demand” nature of entrepreneurs’ information needs.
- The role of the business services professional changes under this vision of an integrated “bricks and mortar” and virtual network. There will be even greater demands to hire and train the types of staff who can be “senior advisors” when holding face-to-face meetings with entrepreneurs.

- Access to the information in the virtual network should be free. A number of business owners interviewed in this study did not utilize assistance services because they thought they would be costly. SVWIN and its partners should develop funding sources for the virtual network.
- The network of information and assistance services must be known to entrepreneurs to be useful to the target population. SVWIN and its partners should effectively market the network. A new position of entrepreneur advocate should be created.

Role of SVWIN

There is a need for leadership and funding in developing a better business assistance network. SVWIN may be well-suited to play this role. However, neither SVWIN nor the City of San José should build a large staff to directly deliver services better provided through other organizations. Entrepreneurs will trust non-governmental sources of assistance over a city or SVWIN.

BBC recommends that SVWIN help coordinate and market the network, and perhaps fund and office a community business advocate. SVWIN might be the leader in implementing a consistent tracking and measurement system for evaluating demand for certain services and whether the quality of available services meets customer needs. It can best play these roles if it is a respected partner to other small business service organizations.

SECTION I.

Introduction

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In the course of conducting this research, BBC found that there are about 130,000 small businesses in Santa Clara County (firms with fewer than 20 paid employees).

Although this figure seems large, it is actually less than one would expect for metropolitan areas of similar size. Further, the small business component of the local economy is a less-important source of jobs in the San José metro area compared with other cities. About 14 percent of people working in Santa Clara County are employed by firms with fewer than 20 employees compared with 19 percent in California and 18 percent for the United States.

When ranking over 300 metro areas in terms of small businesses' share of total employment, the San José metro area ranks 10th from the bottom.

The lower than expected number of firms and the relatively low share of employment in small firms fly in the face of a commonly-held image of Silicon Valley. Researchers throughout the United States and the world have touted Silicon Valley as a hotbed of entrepreneurship. Many have pointed to unique local conditions that foster firm start-ups in the high-tech or innovation sectors.

How then to reconcile the statistics on small businesses with the image of Silicon Valley as a leading center of entrepreneurship? The answer may give more insights on how, or whether, to support entrepreneurs and small businesses in the San José area. This second phase of the Santa Clara County Small Business Study researches these issues.

This report explores four areas of questions:

- Overall, how does the San José Metro Area compare with other metropolitan areas in the importance of small businesses in the local economy? Can the differences be easily explained by the size or demographic characteristics of Silicon Valley? Do “informal” small businesses explain part of the difference? Are Silicon Valley residents less likely to own businesses than in other areas in California or the United States? (Discussed in Section II of this report.)
- What are the roles of entrepreneurship and small businesses in the Silicon Valley high-tech sector? If Silicon Valley is touted as the center for high-tech start-ups, what makes this so? (Discussed in Section III of this report.)

- What is the condition of small businesses and entrepreneurship in local sectors outside of high-tech? What can we learn from small businesses in the local ethnic communities? (Discussed in Section IV of the report.)
- In general, are small businesses or entrepreneurship important? Should local governments and other organizations in Silicon Valley promote small business formation and development? If so, what needs should they address? What are some promising initiatives that could be implemented? (Presented in Section V of the report.)

Research Approach

Phase II of the Small Business Study was conducted in spring 2006. Research includes:

- Sector-by-sector analysis of small business employment;
- Regression analysis comparing small business employment among metropolitan areas while controlling for factors such as race/ethnicity, age and education;
- A telephone survey of San José metro area and other California adults concerning formation of new businesses (more than 600 completed surveys in Santa Clara County and more than 400 surveys in the rest of California);
- Preliminary research on the informal small business sector;
- Over 230 executive interviews with business owners conducted by six local ethnic chambers; and
- Assessment of innovative approaches to assisting current small business owners and people starting new businesses.

The following sections of this report present the methodology and detailed results for these tasks. Additional detail is provided in appendices.

SECTION II.

Small Business Importance in San José Metro Area

Overview

In Phase I of BBC's Santa Clara County Small Business Study, BBC found that businesses with fewer than 20 employees account for a smaller share of total employment in the San José Metropolitan Statistical Area (MSA) than in most other MSAs. Business ownership rates are also somewhat below national averages.

In our Phase II work, BBC investigated possible explanations for the relatively low small business employment share in the San José MSA. Using industry-level employment data, we found that approximately 40 percent of the difference between San José and California is explained by the industry composition of Silicon Valley. BBC also used statistical techniques to help explain differences in the small business employment share and the number of firms per 1,000 employees between the San José MSA and other MSAs.

Additionally, BBC examined self-employment, non-employer firms, and medium-sized firms in the San José area. As with the relative importance of small businesses, Silicon Valley trails California in each of these other areas. Finally, BBC conducted preliminary research on informal business sector employment in California. We found no evidence that differences in San José's informal sector help to explain its relatively low share of small businesses.

Industry Adjusted Small Business Importance for San José

About 14.3 percent of total private sector employment in the San José MSA in 2002 was in firms with 1 to 19 employees, substantially lower than the 18.3 percent found for the U.S. or the 18.6 percent in California as a whole. Does the unique makeup of the local economy explain the low share of San José MSA employment? In other words, does Silicon Valley have relatively little economic activity in industries where small businesses are typically found?

To answer this question, BBC calculated the share of total employment in small businesses that the San José MSA would have if the metro area had the same industry mix found in the United States or California as a whole. We used 2002 data from the U.S. Census Bureau's Statistics of U.S. Business, the most recent data available at the time of this analysis.

If San José had the same industry mix as the U.S. while keeping its small business share of total employment by industry, the small business sector in San José would account for about 16 percent of all jobs. Using the California's industry mix produces a similar figure. Therefore, the unique industry structure of Silicon Valley accounts for about 40 percent of the difference between the size of the small business sector in the San José Metro Area and California or the U.S.

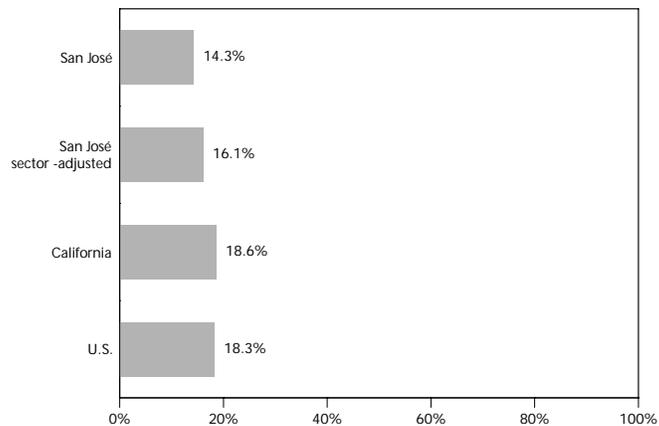
Figure II-1 shows the percentage of employees working in firms with 1-19 employees for the U.S., California, San José MSA as well as the projected percentage for the San José MSA assuming the same industry mix as California.

Figure II-1.
Percentage of private sector workforce employed in small firms (1-19 employees), 2002

Note:

The sector-adjusted San José estimate was calculated using the employment distribution by two-digit NAICS code for California.

Source:
 BBC Research & Consulting from U.S. Census Bureau Statistics of U.S. Businesses — <http://www.census.gov/usd/susb>.



Comparison of San José MSA with other Metropolitan Areas

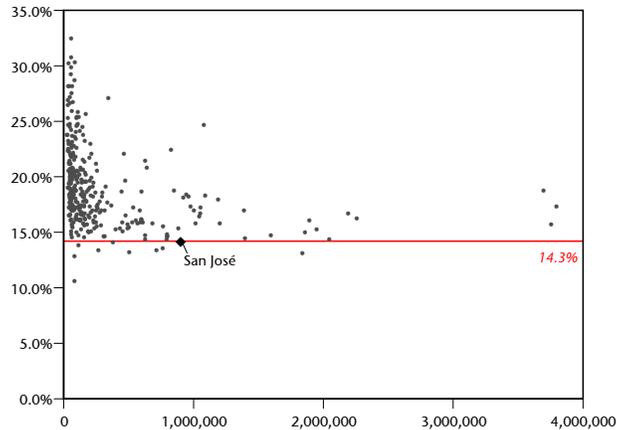
BBC’s initial study on small businesses in Santa Clara county revealed that the San José metropolitan area ranks 10th from the bottom among more than 300 U.S. metropolitan areas in percentage of private sector workforce employed in firms with between 1 and 19 employees. However, most metropolitan areas are smaller than the San José MSA – could it be that larger metro areas such as San José have a smaller share of their employment in small businesses?

Figure II-2 shows how the percentage employment in the small business sector varies by total employment for the 331 U.S. metropolitan areas. Most of the metropolitan areas with a high concentration of employment in small businesses are smaller than the San José MSA. The relative size of the small business sector does have some relationship with metro area size.

However, when compared with metropolitan areas that have more than 100,000 workers, San José still ranks 8th from the bottom out of 174 such areas. Among the 26 metro areas larger than San José, only Dallas has a lower share of employment in small businesses. Population size only explains some of the difference in small business importance between the San José MSA and other metropolitan areas.

**Figure II-2.
Percentage of private
sector workforce
employed in small firms
(1-19 employees) by
total metropolitan area
employment, 2002**

Source:
BBC Research & Consulting from U.S.
Census Bureau Statistics of U.S. Businesses
— <http://www.census.gov/usd/susb>.



Using data from the U.S. Census, BBC performed regression analysis to further examine small business employment share and number of firms per employee differences between the metropolitan statistical areas with more than 100,000 employees. Analysis of the relative number of firms per employee only includes firms with paid employees.

Of the 170 MSAs with enough information to be included in the analysis, San José ranked 161 in firms per employee and 163 in small business employment share. BBC used a regression model framework based on *The Determinants of Regional Variation in New Firm Formation* by Zolton Acs and Catherine Armington. Demographic indicators used to explain differences in small business employment share and number of firms per employee include education, age and person income as well as population growth and density.

The regression analysis for small business employment share described 25 percent of the variation among MSAs while the model for firms per employee explained 22 percent of the variation. Share of employment in small businesses and number of firms per employee in the San José MSA still falls substantially below what would be expected after controlling for the characteristics of the metropolitan area. Appendix A of the report describes the modeling approach and results in detail.

Medium-sized Firms, Non-Employer Firms and Rates of Self-Employment

BBC also analyzed the prevalence of medium-sized firms in the San José MSA. We found that the Silicon Valley economy not only has a relatively low share of total employment in small businesses (1-19 employees) but also medium-sized businesses (20-99 workers). Of the 174 metropolitan areas with at least 100,000 employees, San José ranked 116 in percentage of employees working in medium-sized businesses. Overall, 16.8 percent of San José Metro Area employment is in businesses with 20-99 employees compared with 19.4 percent for California and 17.7 percent for the U.S. There is little evidence that rapid employment growth of small businesses into the 20-99-employee size class explains the small share of total employment in small businesses in the San José MSA.

Additionally, BBC analyzed firms without any employees other than family members and found that San José also lagged California and the U.S. in this category.

Finally, BBC analyzed self-employment in the San José MSA using U.S. Census Public-Use Micro-Sample data for California. A comparison of self-employment rates by industry and education level

revealed significant gaps between rates of business ownership in San José and California in several industries. In these industries, BBC performed a probit regression analysis on self-employment rates using education level, race and ethnicity, marital status and gender as explanatory variables. (Appendix B contains the detailed results of the probit regressions.)

Figure II-3 shows the results of our analysis for residents with a college degree. Where results are shown to be statistically significant in Figure II-3, BBC’s in-depth regression analysis of self-employment rates showed that San José MSA residents were less likely than other Californians to own their own businesses in that sector (and that the difference was statistically significant). San José had lower rates of business ownership than the rest of California (statistically significant) that could not be explained by age, race/ethnicity, gender, education and other demographic characteristics for the following industries:

- Professional, scientific and technical services;
- Construction;
- Retail trade;
- Wholesale trade;
- Information; and
- Manufacturing.

Figure II-3.
Percentage of San José
MSA workforce that is
self-employed (workers
with a college degree),
2000

Note:

*Difference between San José and California is statistically significant at a 95 percent confidence level.

Source:

BBC Research and Consulting from United States Census Bureau- Census 2000 5-Percent Public Use Microdata Sample (PUMS) <http://www.census.gov/Press-Release/www/2003/PUMSS.html>.

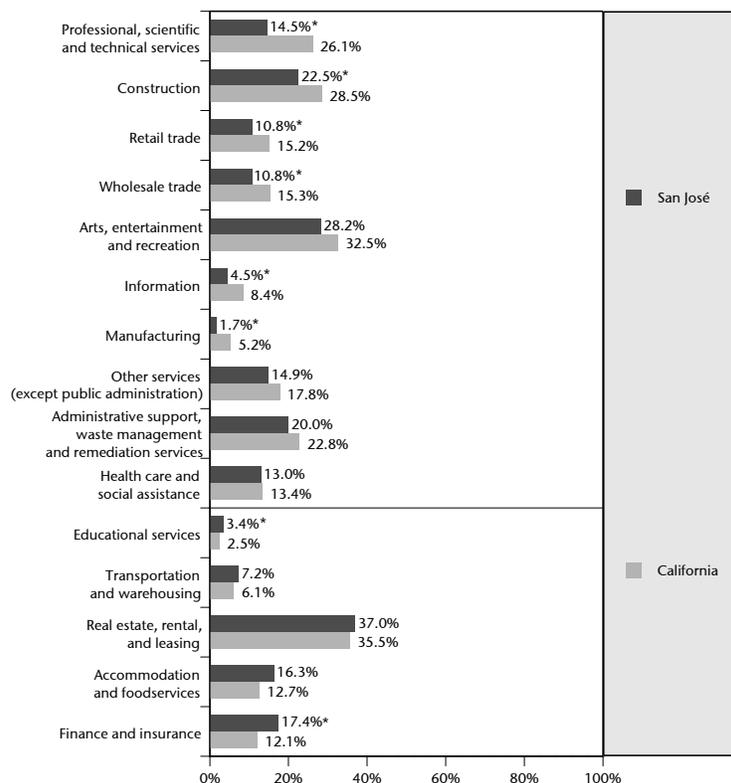


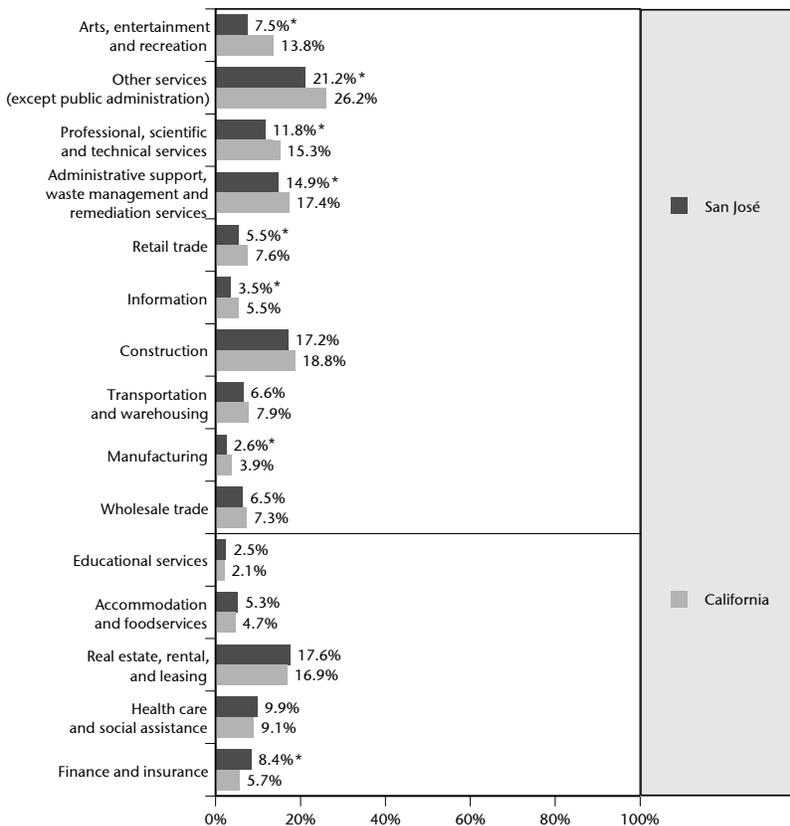
Figure II-4 shows the corresponding results for individuals without a college degree. San José had lower rates of business ownership than the rest of California (statistically significant) that could not be explained by age, race/ethnicity, gender, education and other demographic characteristics for:

- Arts, entertainment and recreation;
- Other services;
- Professional, scientific and technical services;
- Administrative support, waste management and remediation services;
- Retail trade;
- Information; and
- Manufacturing.

Figure II-4.
Percentage of San José
MSA workforce that is
self-employed (workers
without a college
degree), 2000

Note:
 *Difference between San José and California is statistically significant at a 95 percent confidence level.

Source:
 United States Census Bureau- Census 2000 5-Percent Public Use Microdata Sample (PUMS) <http://www.census.gov/Press-Release/www/2003/PUMS5.html> and BBC Research & Consulting.



Informal Sector Employment in San José Metro Area

If there were a relatively large informal economy in the San José MSA, the reported small business employment might be undercounting the actual small business employment. BBC explored this possibility as well.

The informal sector includes business endeavors engaged in legal activities that do not comply with local, state or federal regulations or tax code. An example of informal employment is a cash-only construction subcontractor without the proper licensing who does not report his or her income for taxes. Illegal activities (e.g., drug dealing) are not included as businesses in the informal sector. The

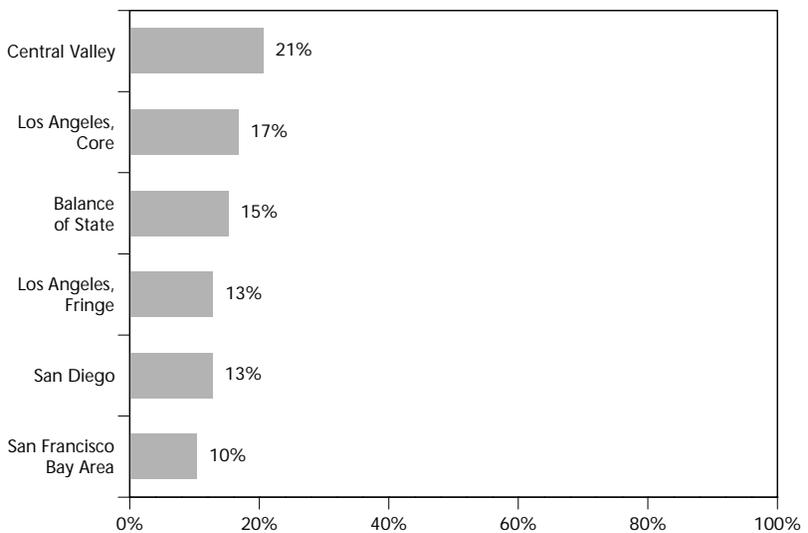
informal sector includes undocumented workers who own businesses. Many businesses in the informal sector are small businesses, although they include some large employers as well.¹

Research suggests that in 1999 informal employment accounted for approximately 14 percent of California's total labor force, but only 10 percent of the labor force in the San Francisco Bay Area, which includes the San José MSA. As shown in Figure II-5, the informal sector is much larger in Southern California and the Central Valley. The Bay Area has the lowest share of its employment in the informal sector in the state. There are no statistics for just Santa Clara County, so BBC used Bay Area data as the best indication of how the San José MSA might compare to the rest of the state.

These findings suggest that while the informal economy may be substantial in the San José area, it does not account for the difference in small business employment between San José and California as a whole. Rather, the differences between the true small business sector in the San José MSA and the rest of California is likely greater than shown based on relative employment in the informal sector.

Figure II-5.
Percentage of total employment in the informal sector by geographic area in California

Source:
Enrico Marcelli, "Informal Employment in California" (2001). *University of California Institute for Labor and Employment. The State of California Labor, 2001.*
<http://repositories.cdlib.org/file/scl2001/Section6>.



¹ Jan L. Losby et al. *Informal Economy Literature Review*. (2002).

Summary

The unique industry composition of the San José economy explains about 40 percent of the discrepancy in small business employment share between the San José MSA and the rest of California. BBC investigated other possible explanations for this difference and found no evidence of more medium-sized businesses or informal workers in Silicon Valley when compared with other areas in California.

Regression analyses of small business importance and firms per employee across 170 large metropolitan areas could not explain the differences between San José MSA and other metro areas.

The next two sections of this report separately examine the Silicon Valley high-tech sectors (or “innovation economy”) and non-high-tech sectors in more detail.

SECTION III.

Small Businesses and Entrepreneurship in the Silicon Valley High-tech Sector

Are entrepreneurship and small business development important for the Silicon Valley high-tech or innovation economy? As demonstrated in this chapter, the answer is “yes” for entrepreneurship and mostly “no” for small business.

Why Firm Start-ups Matter in the Silicon Valley High-Tech Industry

Some mark the creation of Federal Telegraph Company in the early 1900s as the genesis of the Silicon Valley technology sector while others point to the formation of Hewlett Packard in the 1930s or Fairchild Semiconductor in the 1950s.¹ The diversity of these three firms highlights the unique evolution of the area as a technology center, or perhaps more accurately, a center for technology innovation. “High-tech” in Santa Clara County has meant semi-conductors in the 1960s, computers in the 1970s and 1980s, and harnessing Internet technology in the 1990s, each of which are very different industries. (For convenience, BBC uses “high-tech” as shorthand for this innovation economy throughout this report even though it is an imprecise descriptor of this sector. We also focus on Santa Clara County because this describes the old San José metropolitan statistical area, the unit of analysis for many federal data sources on firms. BBC uses “Silicon Valley,” “Santa Clara County,” and “San José metropolitan area” interchangeably.)

The firms formed in one wave of the technology cycle were usually not the firms that responded to the next wave. Instead, spin-offs and high-tech start-ups were the firms that created and commercialized the new technologies. Hewlett-Packard did not create eBay. Intel was a venture of former Fairchild Semiconductor employees, not the company itself. As noted by Douglas Henton, Silicon Valley’s rise to economic prominence followed a pattern described by economist Joseph Schumpeter known as “creative destruction.”² In this framework, entrepreneurs capitalize on emerging technology bypassing previously dominant firms. These new firms often cluster, resulting in a nexus of firms in a common geographic area.

Existing high-tech firms shed jobs, new firms create jobs. Available data drive home the importance of “creative destruction” in the Silicon Valley high-tech sector. Junfu Zhang points out that more than half of the 40 largest technology companies in Silicon Valley in 2002 did not exist before 1982 (as ranked by total sales). Furthermore, more than half of the top technology companies in Silicon Valley in 1982 no longer existed by 2002. Only four top-40 firms in 1982 made it on the 2002 list of largest technology firms. To further illustrate this point, eBay and Google were not even

¹ Timothy J. Sturgeon. 2000. “How Silicon Valley Came to Be.” *Understanding Silicon Valley*. Stanford University Press. p. 15-47 and Stuart W. Leslie. 2000. “The Biggest ‘Angel’ of Them All: The Military and the Making of Silicon Valley.” *Understanding Silicon Valley*. Stanford University Press. p. 48-67.

² Doug Henton. 2000. “A Profile of the Valley’s Evolving Structure.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 46-58.

on the 2002 list of largest technology firms.³ Researchers who have studied the high-tech segment of the local economy consistently find that new firms are usually the ones that best capitalize on the emerging technologies.

Figure III-1 shows that high-tech firms existing in 1990 shed about 120,000 jobs in Silicon Valley between 1990 and 2001, while firms that did not exist in 1990 created more than 250,000 jobs during this time period. Zhang’s definition of “high-tech” may be overly inclusive, as loosely related firms such as commercial printers, lawyers and accountants are included in these data. Using a narrower view of “high-tech” results in the same conclusion, however: established firms in Silicon Valley lost jobs and new firms created the net employment growth in this sector from 1990 to 2001.⁴

Figure III-1.
Silicon Valley high-tech employment changes by industry and type of firm, 1990-2001

Industry	Employment Growth 1990-2001	Employment Growth of 1990 Firms	Employment Growth of New Firms
Bioscience	5,039	-10,572	15,611
Computers/communications	36,357	-9,661	46,018
Defense/aerospace	-40,960	-46,276	5,316
Environmental	5,491	395	5,096
Semiconductor	23,813	4,071	19,742
Software	66,110	-6,574	72,684
Innovation services	11,933	-34,828	46,761
Professional services	30,454	-17,114	47,568
Total	138,237	-120,559	258,796

Source: Junfun Zhang, *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. 2003 Public Policy Institute of California

Silicon Valley is a center for high-tech start-ups. The image of Silicon Valley as a center for high-tech startups is borne out by the data. During the 1990s, new starts of high-tech firms in Silicon Valley even outpaced high-tech centers such as Boston and Washington.⁵

Start-ups are needed because many established firms shift jobs outside Silicon Valley. Zhang found that more employment in established high-tech firms relocated out of the area than migrated to the area. In other words, Silicon Valley was an employment generator in newer firms that, as they aged, continuously shed jobs to other locations, primarily through branches but sometimes through relocations. These jobs mostly appeared elsewhere in California, often still close to Silicon Valley.⁶ The high costs in Silicon Valley would be one motivation for a local firm to put its growing workforce in other cities.

Without the employment generator of start-ups, high-tech employment in Silicon Valley would rapidly erode.

³ Junfu Zhang. 2003. *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. Public Policy Institute of California. p, 4-6.

⁴ Ibid. p. 16-19.

⁵ Ibid. p. 11-15.

⁶ Ibid. p. 54-65.

Successful high-tech firms create demand for related support firms. Successful high-tech firms contract out certain design and production work to other types of high-tech firms. Sometimes, these are small start-ups as well. Many who research the Silicon Valley high-tech economy also include sectors such as legal services and accounting in the definition of “high-tech.” In large part, the local professional services sectors are supported by high-tech firms.

Most New High-Tech Firms Are Not Successful

The rest of the country enviously viewing the economic success of Silicon Valley through the 1990s might have imagined a milieu of young high-tech entrepreneurs becoming rich from their new VC-backed businesses. Indeed, during the 1990s entrepreneurs formed about 3,000 firms each year in high-tech industries in Silicon Valley.

However, the aggregate data on importance of new firms to overall high-tech employment growth disguise the odds of success for an entrepreneur. Research by Zhang shows the odds against establishing a successful high-tech firm.⁷

- In Zhang’s data only one-quarter of the high-tech firms founded in Silicon Valley in the 1990s ever hired five or more employees.
- A majority went out of business within ten years.
- A small fraction of high-tech start-ups received venture capital backing (peaking at 375 start-ups in 1999 across all Silicon Valley industries).

Zhang’s statistics are based on Dun & Bradstreet records, and are therefore skewed toward larger, more-successful firms. If one included the firms that are not in the Dun & Bradstreet database, and quietly go in and out of business without being captured in the D&B-based data sets, a smaller proportion of high-tech firms ever reach a size of five employees, and a smaller proportion survive in business more than a few years.

These data show that the waves of success that perpetuate the Silicon Valley high-tech sector rely on a handful of enormously successful start-ups and spin-offs.

Silicon Valley High-Tech is Not About Small Business

Small businesses, those with fewer than 20 employees, account for a small share of high-tech employment in Silicon Valley. As with the overall measure of small business importance for the San José MSA, the percentage of small business employment in the professional, scientific and technical services sector in San José lagged California.⁸ In 2002, 19 percent of employment in Santa Clara County professional, scientific and technical services were in firms with fewer than 20 employees compared with 25 percent for all of California.

⁷ Junfu Zhang, 2003. *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. Public Policy Institute of California. p. 11-15.

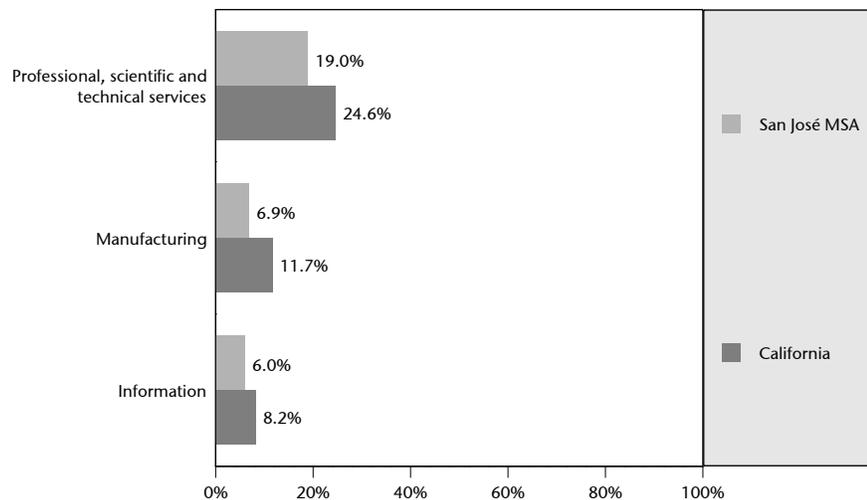
⁸ BBC Research & Consulting using data from 2002 U.S. Census Bureau Statistics of U.S. Businesses. Available at: <http://www.census.gov/csd/susb/susb.htm>

In the manufacturing and information sectors, Silicon Valley also had a relatively small share of employment in small businesses (7 percent and 6 percent, respectively). The share of employment in small businesses in these two sectors fell short of California (12 percent and 8 percent).

Figure III-2.
Percentage of total employment in tech-related small businesses in San José MSA and California, 2002

Note:
Small businesses defined as firms with 1-19 employees.

Source:
U.S. Census Bureau Statistics of U.S. Businesses — <http://www.census.gov/usd/susb> 2002 and BBC Research & Consulting.



Additionally, there are relatively few business owners in Silicon Valley in these high-tech-related sectors.

- Among highly-educated people in the Santa Clara County professional, scientific and technical services sector, 14 percent are business owners (as measured by the number who report that they are “self-employed” in unincorporated or incorporated businesses). In California as a whole, 26 percent of people with a college degree working in professional, scientific and technical services are self-employed. (See Figure III-3.)⁹
- Among highly-educated people working in the Silicon Valley manufacturing sector, 2 percent are self-employed compared with 5 percent for California.¹⁰
- In the information sector, about 4 percent of Santa Clara County workers with a college degree are self-employed. In contrast, 8 percent of highly-educated employees in this sector statewide are business owners.¹¹

In sum, small business is not a large part of the Silicon Valley high-tech economy. Relatively few people working in the local high-tech sector own their own businesses.

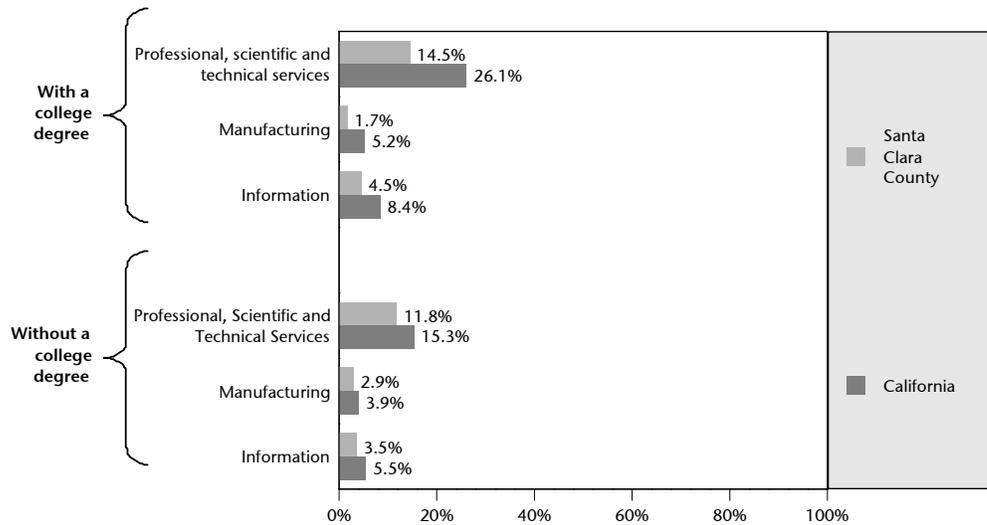
Figure III-3 also shows self-employment rates for workers in these sectors who do not have a college degree. Fewer of these workers own their businesses in each of these sectors compared with the state. Differences between Santa Clara County and California cannot be explained by the age, gender, race/ethnicity and marital status of these workers.

⁹ BBC Research & Consulting. 2006. using 2000 U.S. Census 5% Public Use Micro-sample Data. Available at: <http://www.census.gov/Press-Release/www/2003/PUMS5.html>

¹⁰ Ibid.

¹¹ Ibid.

Figure III-3
Self-employment percentage by sector and education level for Santa Clara County and California



Note: * Difference between California and Santa Clara County is statistically different from zero at a 95 % confidence level when controlling for age, sex, race, ethnicity, marital status and education level.

Source: United States Census Bureau- Census 2000 5-Percent Public Use Microdata Sample (PUMS) <http://www.census.gov/Press-Release/www/2003/PUMS5.html> and BBC Research & Consulting

If It's Not About Small Business, What Is It About?

One reason that small business is relatively unimportant in local high-tech is that the culture and infrastructure for high-tech entrepreneurship in Silicon Valley is about the rapid-growth start-up, not the small firm. In other words, being small is just an unfortunate stage on the path to becoming big. If the firm stays small, it often dies.

Infant giants. As noted by Thomas Hellman, the prevailing culture in Silicon Valley high-tech favors “infant giants” rather than small firms.¹² Infrastructure and support are available for the “next big idea” and firms positioning themselves for rapid growth.

As further evidence, VC-backed firms in Silicon Valley have a shorter time between formation and their first infusion of venture capital than found in other high-tech regions (12 months average from founding to closing date of first round of VC in Silicon Valley versus 17 months in Boston and 23 months in Washington, D.C. area).¹³ This may mean that the rate of birth of small firms is similar, but they graduate to large or medium firms more quickly than other firms in California.

¹² Thomas F. Hellmann. 2000. “Venture Capitalists: The Coaches of Silicon Valley.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 276-294.

¹³ Junfu Zhang. 2003. *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. Public Policy Institute of California. p. 38-40.

“Working” for a large high-tech firm has been attractive. Further, there are opportunities for wealth generation for someone working in the Silicon Valley high-tech industry beyond traditional firm ownership. Most self-employed people have complete ownership of the firm. However, this is not the model for most successful high-tech start-ups where a group of people start a firm together and ownership is further diluted if the firm receives venture capital funding. Granting stock options is another way to reward people who might otherwise leave a firm to start their own company.

The high cost of living in Silicon Valley, and the very attractive wages in the local high-tech sector, also may weigh against a proliferation of small high-tech firms in the San José MSA. Figure III-4 shows the differential between wages per worker in small firms and wages per worker in large firms in several Silicon Valley and California industry sectors.

- In the San José MSA professional, scientific and technical services sector, small firms pay about 67 cents for every dollar in average wages paid by large firms (those with 500+ employees). For California as a whole, average payroll per worker is about the same for small firms and large firms in this sector.¹⁴
- In the information sector, small firms pay 59 cents for every dollar of wages in a large firm in Silicon Valley. Small firms actually pay higher wages, on average, in California.¹⁵
- In manufacturing, small firms pay about one-half the average wages of large firms in both Silicon Valley and in California.¹⁶

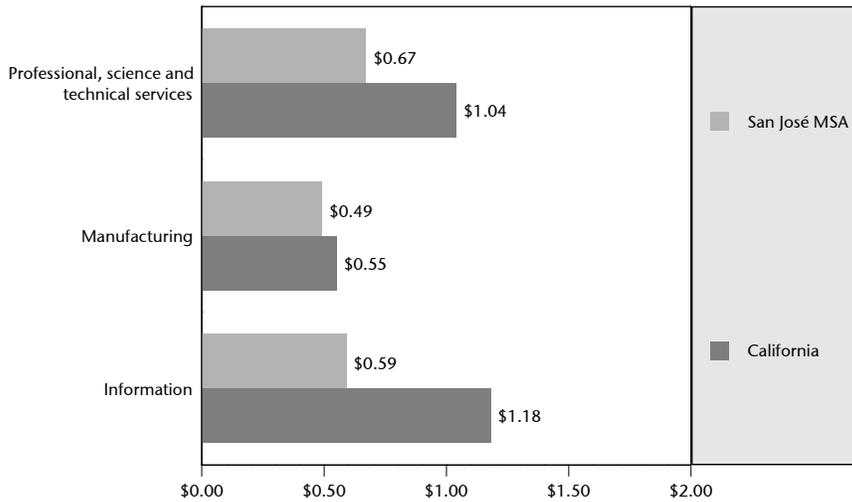
Although these are highly aggregated data that may disguise many competing forces, they do suggest that it may be difficult for some small high-tech firms to hire and retain employees in Silicon Valley and that, for some, it may be attractive to remain an employee of a large firm rather than venture out on one’s own. These two factors may help to explain why small high-tech businesses are not a larger share of the high-tech sector in Silicon Valley. Even though the post-bubble world is different, small businesses’ share of the high-tech economy was about the same in 2002 as it was in the mid-1990s.

¹⁴ BBC Research & Consulting. 2006 using 2002 U.S. Census Bureau Statistics of U.S. Businesses available at <http://www.census.gov/csd/susb/susb.htm>

¹⁵ Ibid.

¹⁶ Ibid.

Figure III-4.
Ratio of small firm payroll per employee to large firm payroll per employee



Note: Ratios expressed such that for the Information sector in California for every dollar of per employee payroll in larger firms there is \$1.18 for small firms.
Source: U.S. Census Bureau Statistics of U.S. Businesses — <http://www.census.gov/usd/susb> 2002 and BBC Research & Consulting.

Culture of High-Tech in Silicon Valley that Supports “Gazelles”

The data presented in this section support the conclusion that the Silicon Valley high-tech economy is successful because of the infrastructure and opportunities for a certain type of entrepreneurship, and that small business is really only important as a short-lived stage in the growth of the high-tech firm. What can we learn from this culture of entrepreneurship that can be extended to other parts of the San José metro area economy?

Why, given the discontinuities in technological innovation, have a disproportionate share of new high-tech firms in the U.S. been formed in Silicon Valley? There is a considerable literature on the culture of entrepreneurship in high-tech in Silicon Valley.

Mobile, flexible labor force. Saxenian argues that Silicon Valley has benefited by a highly mobile labor market and entrepreneurial culture in the high-tech industry that encourages diffusion of knowledge and spurs employees to leave established firms to form new ones.¹⁷ Other high-tech centers such as Boston have a culture in which employees are more likely to stay with large, established firms. The fact that California courts do not enforce non-compete clauses in employment contracts may have encouraged this entrepreneurial climate. Zhang found that many more spin-offs came out of the large high-tech firms in Silicon Valley than the high-tech firms in Boston.¹⁸

¹⁷ Annalee Saxenian. 1996. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Harvard University Press.

¹⁸ Junfu Zhang. 2003. *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. Public Policy Institute of California. p. 50-51.

Social capital networks. Cohen and Fields observe that Silicon Valley builds networks supporting entrepreneurs using performance-based trust.¹⁹ Liao and Walsh argue that this type of trust fosters broad, non-redundant networks allowing tech-based entrepreneurs free exchange of ideas with minimal relationship investment.^{20,21} Section IV of this report provides further discussion about the nature of social capital in Silicon Valley, contrasting the type of networks needed for tech and non-tech enterprises.

Centers for higher education. In addition to a mobile labor market, the educational infrastructure surrounding Santa Clara County contributed substantially to the technology boom. James Gibbons, a former Stanford Dean of the School of Engineering, points out that in 1988 and 1996 revenues from the top 100 “Stanford” start-up ventures accounted for about 60 percent of the total revenues in Silicon Valley. Excluding Hewlett Packard, the proportion of revenues falls to around 50 percent.²²

While the data from Stanford show that creating new companies from research technologies is one benefit of the regional institutions, others argue that the highly educated workforce is the main benefit. According to Gordon Moore, co-founder of Intel and Fairchild Semiconductor, “the most important contribution Stanford makes to Silicon Valley is to replenish the intellectual pool every year with new graduate students.”²³ Beyond the institution that spawned HP, Sun Microsystems, and Google, firms in Silicon Valley also draw on students and research at the University of California at Berkeley, Santa Clara University and San José State University. The quality and abundance of research institutions is an important factor in the technological dominance of Silicon Valley.

Support services for high-tech start-ups. Another possible reason for the consistent culture of innovation in Silicon Valley is the abundance of infrastructure for high-tech start-ups.

Martin Kenney and Urs Von Burg describe the region by delineating two economies within the high-tech sectors; Economy One consists of existing firms and organizations engaged in research or production and Economy Two includes organizations working to help establish new firms and bring new ideas to market.²⁴ According to Kenney and Von Burg, Economy Two grows from its own success and has made Silicon Valley a destination for entrepreneurs. One example is the case of

¹⁹ Stephen S. Cohen and Gary Fields.. 2000. “Social Capital and Capital Gains: An Examination of Social Capital in Silicon Valley.” *Understanding Silicon Valley*. Stanford University Press. p. 190-217.

²⁰ Jianwen Liao and Harold Welsch. “Roles of Social Capital in Venture Creation: Key Dimensions and Research Implications.” *Journal of Small Business Management*. 2005. 43(4) p. 345-362.

²¹ Jianwen Liao and Harold Welsch. “Social Capital and Growth Intention: The Role of Entrepreneurial Networks in Technology-Based New Ventures.” 2001. Babson College. Accessed at <http://www.babson.edu/entrep/fer/Babson2001/XII/XIIB/XIIB/xii-b.htm>

²² James F. Gibbons. 2000. “The Role of Stanford University: A Dean’s Reflections.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 200-217

²³ Ibid. p. 214.

²⁴ Martin Kenney and Urs Von Burg. 2000. “Institutions and Economies: Creating Silicon Valley.” *Understanding Silicon Valley*. Stanford University Press. p. 218-240.

Netscape: researchers at the University of Illinois developed the basic technology but chose to start the company in Silicon Valley.²⁵

One example of the existence of a superior Economy Two comes from examining the average amount of time venture capital-funded firms are in business before they get their first round of VC financing. Among different high-tech sectors, this time has been consistently shorter in Silicon Valley than the U.S. or even other technology centers like Boston. How much shorter?

As the largest center for venture capital, Silicon Valley high-tech start-ups have some natural advantages obtaining VC financing. Some authors report that the “less-conservative culture” of venture capital firms in Silicon Valley explains this difference.²⁶ Perhaps because of the extensive Economy Two networks of bankers, lawyers and others who serve the local high-tech industry, a relatively high proportion of Silicon Valley venture capital-backed firms merged with other firms or were acquired by larger firms.

Thomas Hellman describes venture capitalists as the “coaches of Silicon Valley” using their staged financing and board influence to take companies from concepts to market leaders.²⁷ Only 4 percent of firms receiving venture capital in 1998 were profitable at the time of the deal. The majority of firms were shipping their product but had yet to break even. Venture capital firms, according to Hellman, also prefer investing in small firms with “aggressive (albeit risky) growth path(s),” preferring to risk it all on an “infant giant” rather than supporting a more traditional small business.²⁸

The prevalence of renowned education institutions, a flexible labor market and robust entrepreneurial infrastructure made Silicon Valley the technological center of the world during the 1990s and will continue to fuel the local innovation economy in the future.

Is There Anything Else to Do for High-Tech Entrepreneurship?

Are there local government programs that would boost the infrastructure for entrepreneurship for the Silicon Valley high-tech industry?

Researchers around the country and beyond point to Silicon Valley as the premier environment for creating new high-tech firms. The City of San José has economic development programs designed to further assist certain types of innovation economy firms. Initiatives to encourage high-tech ventures are also important at the national level.

²⁵ Ibid. Note 5. p. 251.

²⁶ Chong-Moon Lee. 2000. “Four Styles of Valley Entrepreneurship.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 200-217. and Homa Bahrami and Stuart Evans. 2000. “Flexible Recycling and High-Technology Entrepreneurship.” *Understanding Silicon Valley*. Stanford University Press. p. 165-189

²⁷ Thomas F. Hellmann. 2000.

²⁸ Ibid.

In Phase II of this study, BBC did not identify initiatives to promote entrepreneurship that are specific to high-tech. However, some of the recommendations made in Section V of this report pertain to firm start-up and growth across all industry sectors, not just high-tech. For example, easier access to more information on how to comply with city requirements, how to hire employees and procedures for paying taxes may help high-tech entrepreneurs as well as other business owners.

Conclusions from the Analysis of the Silicon Valley High-Tech Industry

BBC's original analysis and our review of other research in the local innovation economy sector clearly demonstrates that entrepreneurship is vital to the success of the Silicon Valley high-tech industry over many decades. Small businesses, per se, are not. For many types of high-tech firms, being a small business for any length of time is something to be avoided.

This analysis explains the dearth of small business employment in the Silicon Valley high-tech sectors. The finding of relatively little contribution of small businesses to the local high-tech economy does not suggest a need to further support small businesses. What is most important to the future economic health of the San José MSA is continuing innovation and development of new, high-growth firms in these sectors.

BBC also concludes that the local support networks developed for the local high-tech economy encourage growth of "infant giants" and are not targeted toward traditional small businesses. Also, there is little about the high-tech support networks that carries over into support for small businesses in non-high-tech sectors of the local economy.

SECTION IV.

Non-Tech Entrepreneurship in Silicon Valley

The reasons why small businesses in Silicon Valley may lag other metro areas differ from the causes in the high-tech sectors, but the result is the same: Silicon Valley small businesses make a relatively small contribution to total employment in non-high-tech industries.

Even so, people who are entrepreneurially active in Santa Clara County currently amount to 8 percent of the adult population, about the same as California as a whole. A larger number of local adults have thought about starting a business or have it as a personal goal.

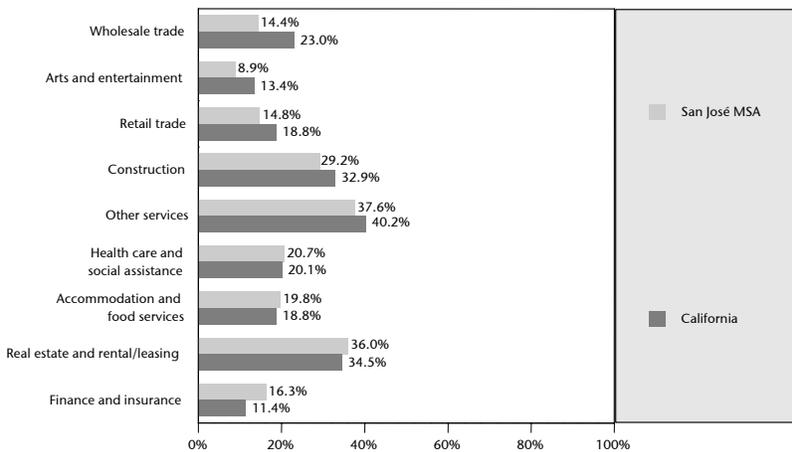
BBC learned more about the challenges facing new businesses and older firms through more than 230 in-depth interviews with current small business owners spanning many different industries and ethnic groups. Representatives of six San José area ethnic chambers completed these interviews.

Small Business Indices for Non-Tech-Related Industries

Share of industry employment in small businesses. Of the nine non-high-tech private sector industries examined in Silicon Valley, five show substantially lower shares of industry employment in small businesses when compared to California. Figure IV-1 shows the results of BBC’s non-tech sector small business analysis.

Figure IV-1
Non-tech related share of total employment in small business

Source:
 United States Census Bureau- Census 2000 5-Percent Public Use Microdata Sample (PUMS) <http://www.census.gov/Press-Release/www/2003/PUMS5.html> and BBC Research & Consulting.



Self-employment rates. Also similar to tech-related industries, most other sectors of the Silicon Valley exhibit self-employment rates below that of California. This is true for both San José metro area residents with college degrees and those without. Section II of the report presents these results. Race/ethnicity, gender, age, education and other demographic characteristics could not explain the differences between self-employment rates for Santa Clara County residents compared with other Californians (see Appendix B).

Ratios of payroll per employee. BBC also found that the disparities in per-employee payroll between small and large businesses were higher in Silicon Valley than in California as a whole.

Influence of Tech-Related Support Networks on Non-Tech Small Businesses

Effect of high-tech support network. According to BBC interviews, the network of attorneys and venture capital firms in Silicon Valley that contributes to the success of high-tech start-ups has little direct effect on new firms or small businesses in other local industries.

Social capital needs of non-tech small businesses. In *Bowling Alone*, and *Making Democracies Work*, Robert Putnam outlined a model for regional economic success based on social capital.¹ According to Putnam, communities benefit from dense social networks and strong relationships between citizens. The trust built in these dense social networks encourages businesses and helps successful enterprises grow and take calculated risks.

As noted by Fields and Cohen, Silicon Valley does not fit this model of economic success. According to Cohen and Fields as well as Liao and Welsch, Silicon Valley is a land of “strangers” and “isolated newcomers.”² Instead of relying on trust based on a long history of committed civic engagement, entrepreneurs in Silicon Valley build relationships on “performance-based trust.” If an individual has success in a particular high-tech venture, co-workers and acquaintances vouch for her abilities, building a commercial, rather than community based trust.

Liao and Welsch contrasted the social capital needs of tech-based nascent entrepreneurs and non-tech nascent entrepreneurs. Technology-based entrepreneurs have greater growth aspirations in an environment where ideas are freely shared across a sparse social network. These networks require less personal investment than a more extensive network and ensure the flow of fresh ideas from disparate sources. Silicon Valley thrives on this cross-fertilization of ideas promoting innovation in tech-based start-ups.

On the other hand, a denser network with redundant connections fosters growth aspirations within non-tech entrepreneurs. These businesses need extensive networks for support in sectors where a steady increase in customers and clients via personal references and reputation substitutes for “gazelle-like” growth.

¹ Robert D. Putnam. *Bowling Alone*. 2001. Simon & Schuster and Robert D. Putnam. *Making Democracies Work: Civic Traditions in Modern Italy*. 1994. Reed Business Information Inc.

² Stephen S. Cohen and Gary Fields. 2000. “Social Capital and Capital Gains: An Examination of Social Capital in Silicon Valley.” *Understanding Silicon Valley*. Stanford University Press. p. 190-217; and Jianwen Liao and Harold Welsch. “Roles of Social Capital in Venture Creation: Key Dimensions and Research Implications.” *Journal of Small Business Management*. 2005. 43(4) p. 345-362.

In “Why the Garden Club Couldn’t Save Youngstown,” Sean Safford suggests that the structure of the overall community network is also important to economic growth. Safford contrasts the dense, somewhat exclusive core of the social network in Youngstown, NY with the more inclusive network of Allentown, PA.³ While a dense network is important to an individual non-tech entrepreneur, promoting community-wide connections among these networks may promote overall regional economic health. This suggests that Silicon Valley foster a broadly connected network of local organizations promoting non-tech entrepreneurship within their specific communities.

Current Rates of Entrepreneurship

Compared with other Californians, Silicon Valley residents are not lagging in the number of people currently starting businesses or operating new businesses. About 8 percent of adults between 18 and 74 years of age are in the process of starting or operating new firms. This amounts to 95,000 San José metro area adults engaged in entrepreneurial activity.

BBC conducted a random household telephone survey in spring 2006 to determine San José metro area residents’ participation in starting new businesses, interest in owning a business, and current and past business ownership. To develop a benchmark for the Silicon Valley results, the same survey was conducted among households in other areas of California. The survey methodology and questionnaire closely followed other studies of nascent entrepreneurship in the United States and other countries. As with the U.S. studies, BBC weighted survey results to reflect the current demographic makeup of Santa Clara County. Appendix C describes the research approach and results in detail.

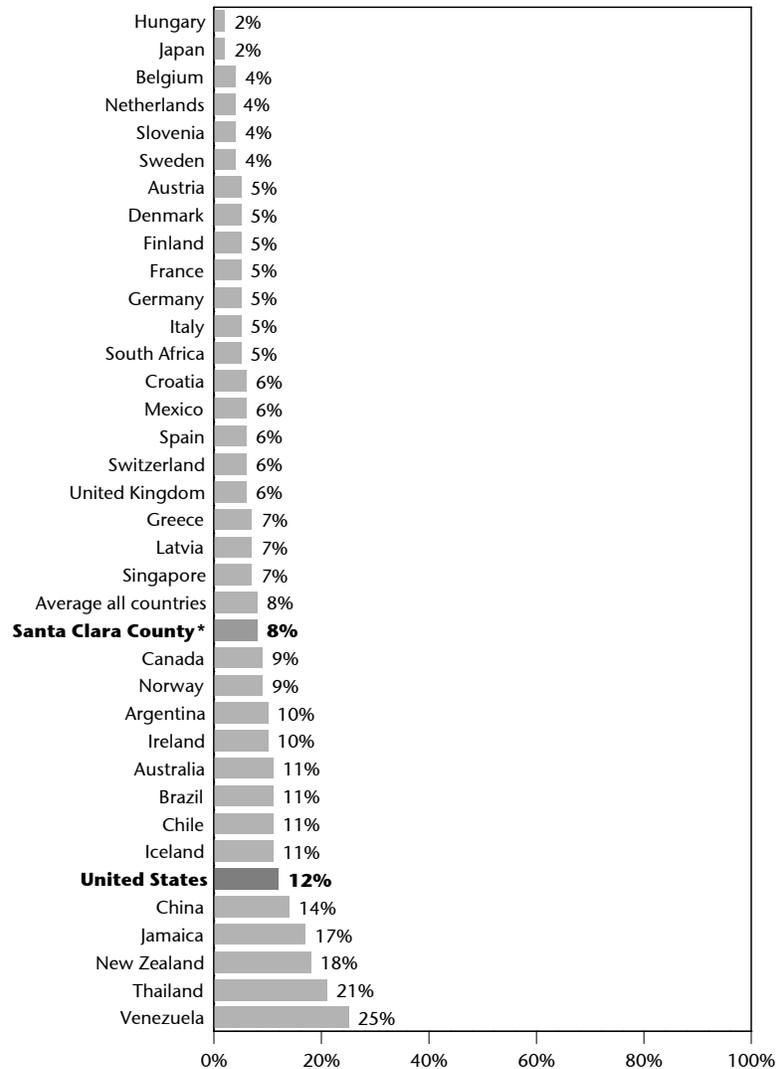
As shown in Figure IV-2, participation in entrepreneurship in Santa Clara County was slightly below the United States and in line with the rates found in other industrialized countries. Entrepreneurial activity is defined as actively working to start a new firm (concrete activity within the prior 12 months) or operating a firm less than four years old.

³ Sean Safford. “Why the Garden Club Couldn’t Save Youngstown: Civic Infrastructure and Mobilization in Economic Crises.” Massachusetts Institute of Technology Industrial Performance Center Working Paper Series. 2004.

**Figure IV-2.
Prevalence of
entrepreneurship in the
U.S. and other countries**

* From BBC telephone survey data, April 2006. This percentage was calculated among the Santa Clara County population ages 18 to 64, while other references to Santa Clara County entrepreneurship in this section report the proportion among the population ages 18 to 74.

Source:
Minniti, Maria et al. 2006. "Global Entrepreneurship Monitor 2005 Executive Summary. Produced by the Global Entrepreneurship Monitor; Babson College and the London Business School.



It is important to note that these estimates of entrepreneurial activity are based on sample data. At the 95 percent confidence level, the confidence interval around the estimate for Santa Clara County entrepreneurial activity exceeds plus or minus 2 percentage points. Estimates also change from year to year. The total entrepreneurial activity index for the United States has been measured as high as 17 percent (2000) and as low as 10 percent (2002) of the adult population between the years of 2000 and 2005. It is not clear whether the rate of entrepreneurial activity in Santa Clara County is really lower than the U.S. as a whole.

Stages of development. About 4 percent of Silicon Valley adults are currently working on starting a business and another 4 percent own an operating business that is less than four years old. The household survey data suggest that the percentage of adults owning these young operating businesses is similar to the percentage of the population who own older businesses (four or more years old).

Santa Clara County residents are less likely to currently own an older business than other Californians, and they are slightly less likely to have ever owned a business. The 4 percent of Santa Clara County adults currently owning a business started in 2002 or earlier is substantially less than

the 9 percent of Californians who own older businesses. This difference is statistically significant. Some of this difference in the relative number of owners of older businesses may be indicative of the post-bubble economic conditions in Silicon Valley. A larger proportion of the businesses owned by local residents may not have made it through the recent economic downturn.

When asked why they no longer own this business, the most frequent responses were:

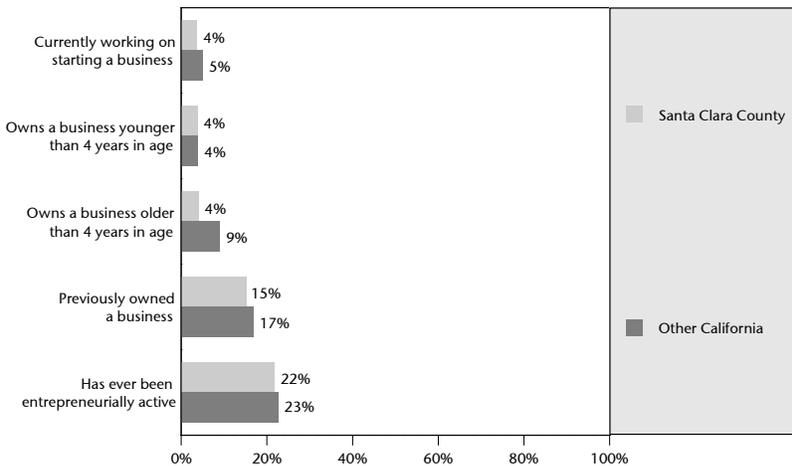
- Business had failed (one-third of respondents);
- Owner retired (one-quarter of former business owners); and
- Owner sold the business for another reason (one-quarter of respondents).

Figure IV-3 compares the percentage of Santa Clara County and other California adults who are currently working on starting a business, own a start-up business that is operating, own an older business and previously owned a business. Counting any current or past business ownership, Figure IV-3 also includes the percentage of adults who had ever been entrepreneurially active. The only statistically significant differences between rates in Santa Clara County and other California is for ownership of businesses that are at least four years old.

Figure IV-3.
Prevalence of
entrepreneurial
activities in Santa Clara
County and California

Note:
n = 602 for Santa Clara County.
n = 403 for other California.

Source:
BBC Research & Consulting from telephone
survey, April 2006.



Motivation for becoming an entrepreneur. More than one-half of entrepreneurs in both the Silicon Valley and the rest of California indicated that they were an entrepreneur in order to “take advantage of a business opportunity.” Relatively few of the respondents indicated that they were involved in their entrepreneurial activity because they had no better opportunities. The proportion of entrepreneurs in Santa Clara County and California who are pursuing entrepreneurial activities out of necessity is the about the same as the proportion seen nationally (14 percent).⁴

⁴ Reynolds, Paul D. 2005. “South Florida Entrepreneurship: 2004 Assessment.” A report completed for the Eugenio Pino and Family Global Entrepreneurship Center; Florida International University, Miami, Florida.

Owning a business as a personal goal. Figure IV-4 shows the personal aspirations of business ownership among those individuals who have never been entrepreneurially active.

Personal aspirations of business ownership are similar among respondents in Santa Clara County and the rest of California. Among individuals who have never been entrepreneurially active, almost one-quarter stated that owning a business was a personal goal. In Santa Clara County, approximately 39 percent of residents aged 18 to 74 have “thought about owning a business,” compared to only one-third of the residents in the rest of California.

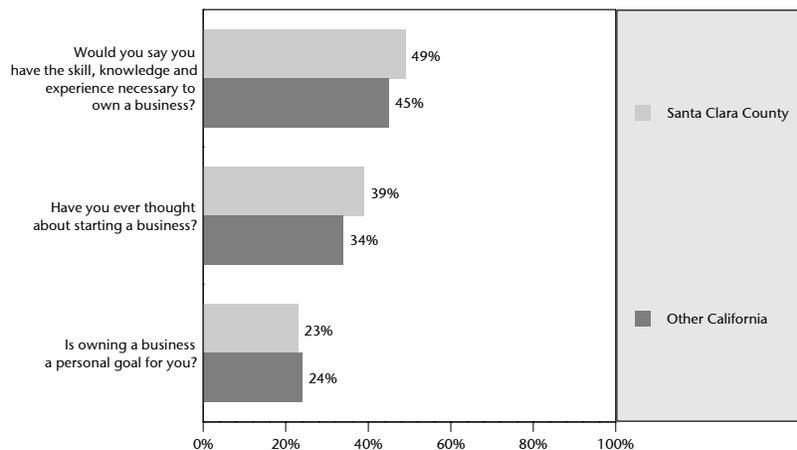
These proportions imply that approximately 366,000 individuals in Santa Clara County have “thought about” owning or starting a business, while owning a business is a personal goal for about 220,000 Santa Clara County residents. Together, about 415,000 Santa Clara County residents have either thought about owning a business or have owning a business as a personal goal, or both.

When asked if they have the “skill, knowledge and experience” required to start a business, one-half of adults responded that they do possess the required skills, no different from other Californians.

Figure IV-4.
Personal aspirations of business ownership

Note:
n = 399 for Santa Clara County.
n = 227 for other California.

Source:
BBC Research & Consulting from telephone survey, April 2006.



What percent of potential entrepreneurs say they don't have skill? Survey respondents who had not started a business cited a wide range of reasons for not having done so. Most frequently (30 percent), individuals responded that financial constraints have kept them from opening a business. Many survey respondents indicated that they had a good job and did not feel like they needed to own a business. Others cited lifestyle choices (family, health or some other reason), lack of education or experience, and an aversion to risk.

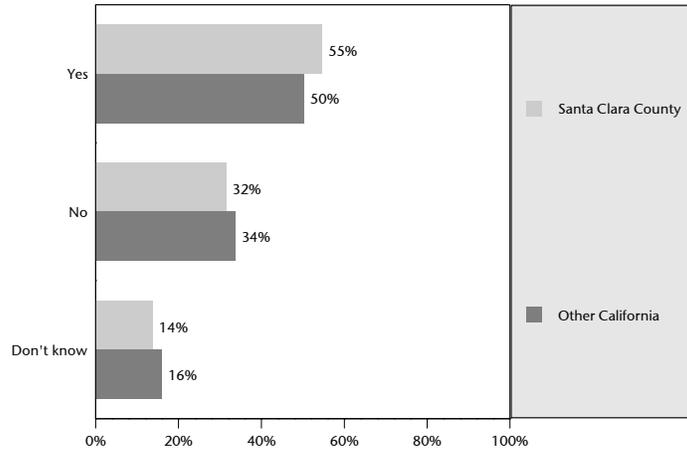
Perceptions of local business climate. Survey respondents, whether they have been entrepreneurially active or not, were asked about their perceptions of the climate for starting a business in their community.

As shown in Figure IV-5, Silicon Valley residents were no less likely than other Californians to say they thought that owning a business was a personal goal for other individuals in their community.

Figure IV-5.
Would you say owning a business is a personal goal for many people where you live?

Note:
 n = 559 for Santa Clara County.
 n = 227 for other California.

Source:
 BBC Research & Consulting from telephone survey, April 2006.

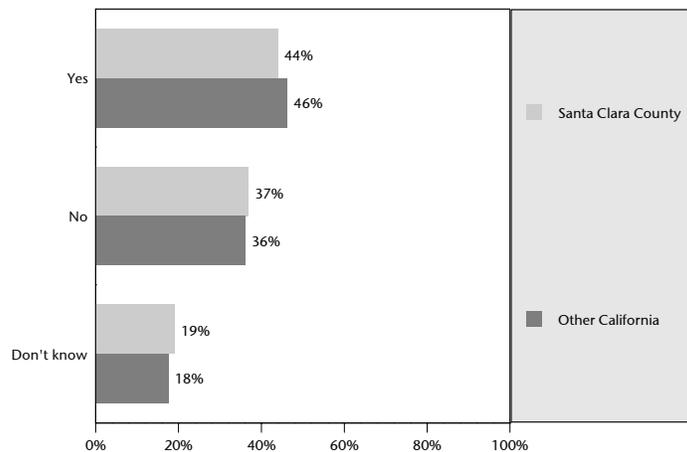


Forty-four percent of the residents of Santa Clara County said that there would be “good opportunities for starting a business” in their community in the next 6 months, no significant difference from the responses from other Californians. Figure IV-7 examines these responses.

Figure IV-7.
Would you say there would be good opportunities for starting a business in the area you live in the next 6 months?

Note:
 n = 561 for Santa Clara County.
 n = 363 for other California.

Source:
 BBC Research & Consulting from telephone survey, April 2006.



Opportunities to Assist Entrepreneurs

BBC worked with several ethnic chambers of commerce to complete in-depth interviews with local business owners about their experiences and difficulties in starting and operating small businesses in Silicon Valley. These interviews built on the focus group research with local small business owners conducted in Phase I of this study.

SVWIN contracted with six ethnic chambers to conduct this research. Each chamber attempted to complete 50 interviews with local small businesses.

The following ethnic chambers participated in this research:

- Black Chamber of Silicon Valley;
- Filipino-American Chamber of Commerce Santa Clara County;
- Hispanic Chamber of Commerce Silicon Valley;
- Japanese American Chamber of Commerce;
- Portuguese American Chamber of Commerce; and
- Vietnamese American Chamber of Commerce.⁵

BBC trained interviewers, gave ongoing guidance and advice, and reviewed interview reports prepared by the chambers. Representatives of each chamber and BBC met frequently to discuss process and key findings. More than 230 interview reports were completed by the ethnic chambers. Because firms were not randomly sampled, BBC reports very limited statistical findings. Even so, results of these interviews provide a broad cross-section of minority business owners in Santa Clara County. Appendix D describes the research process and discusses detailed results of these interviews.

Typology of existing business owners. After examining the differences between businesses, BBC identified seven types of business owners based on stage of the business life cycle and the owners' growth aspirations.

BBC first categorized firms into “new” or “established” based on years owning the business (three years or less versus four or more). In addition, firms were classified as “maintainers” versus “growth” business based on the growth aspirations of the business owner. Business owners seeking rapid growth were divided into those with and without concrete plans as to how to achieve that growth (“planners” versus “dreamers”). “Maintainers” were divided into two sets of business owners depending on whether they had added non-family members as partners or employees. One group of business owners stood out from the rest: people with established businesses who were looking to retire or sell their companies.

In sum, the seven groups of business owners are:

- New maintainers: modest growth businesses owned for three years or less (including start-ups, new owners of franchises, new owners of existing businesses);
- Established family maintainers: businesses with modest or no growth aspirations owned for 4+ years and limited to family partners or employees;
- Established beyond-family maintainers: modest growth businesses owned for 4+ years having non-family partners or non-family employees;
- New growth dreamers: high growth businesses without a plan, owned for three years or less (including start-ups, new owners of franchises, new owners of existing businesses);
- Established growth dreamers: high growth businesses without a plan, owned for 4+ years;

⁵ The Vietnamese American interviews were supplemented by SVWIN.

- Growth planners: high growth businesses with a plan including start-ups, new owners of franchises, new owners of existing businesses, established owners; and
- Seller/retirees: businesses with owner selling or retiring including start-ups, new owners of franchises, new owners of existing businesses, established owners.

Of the businesses interviewed about two-thirds had limited or modest growth plans. This group was comprised of “new maintainers,” “established family maintainers” and “established beyond family.” Over one quarter of the firms were “new growth” or “established growth” businesses. “Seller/retirees” were fewer than 10 percent of the firms interviewed.

This typology of existing business owners is useful when examining business assistance needs.

Starting a business. When asked what advice they would give someone looking to start a new business, more than one-third of the business owners stated that entrepreneurs need to “do their homework” prior to starting a business. Many business owners said that you need a plan. Aspects of planning that were most frequently cited were studying financing, planning a marketing strategy and developing a thorough understanding for the particular business operation. Other concerns included finding a good location (for retail businesses) and being “*able to bounce back from rejection.*”

- *“Be sure you know all the aspects of the business before you begin investing money. This means all aspects of what you are going to be doing, including marketing, finances, costs, and finding your customer base.”*
- *“You need to be focused and persistent. Really work hard, be diligent and because of competition, you have to know the environment and do a lot of research. Also, balance your life—emotional, physical and mental.”*
- *“Plan, plan and plan. Work out a strategy and make sure you know what you are getting into.”*

Sources for advice. Business owners were asked if there were organizations where they could refer new business owners if they needed help. The majority of surveyed business owners did not recommend any business service providers, instead recommending a trade organization, other business owners, a local chamber of commerce, or a local ethnic chamber of commerce.

Among the few business owners who did suggest a business service provider, most often owners recommended eCenter and SCORE as a good place to get assistance and advice. Other business owners had negative initial experiences with business services providers and felt discouraged from going back.

Biggest challenges when starting a business. The challenges to starting a business identified by business owners were varied and covered nearly every aspect of operating a business.

- Many business owners said they had faced one of three challenges: understanding the business, marketing and establishing a positive reputation in the business community, and financing.
- Some challenges mentioned include finding a location for a retail store or restaurant that will be profitable but is also affordable.
- For some recent immigrants, breaking through a cultural business barrier was a challenge; they indicated they did not know enough about the United States to effectively network or sell their products.
- In specific industries such as childcare, individuals indicated that filling out and filing the proper paperwork is a significant challenge for newcomers to their industry.

How they overcame these challenges. When businesses were asked how they overcame the challenges they had faced when starting their business, the vast majority said through working hard and *“putting in the time.”* Most business owners had not utilized a business resource provider to help them when they were just starting out. Nearly 70 percent said they figured things out on their own.

- *“I just put my nose to the grindstone and worked hard.”*
- *“I bootstrapped my way through those first years.”*
- *“I didn’t know anything about running a business. I needed help but couldn’t afford to hire anyone, so I had to learn it all on my own by working hard.”*
- *“Guts. I had to learn by doing, I had to stay away from things I was comfortable with in order to be successful.”*

Key advisors. A large majority of business owners indicated that they relied on their own intuition or the encouragement and advice from friends or family when first starting a business. Sometimes entrepreneurs utilized family networks in order to get advice from a distant family member who already operated a business.

One-quarter of business owners indicated that they turned to other businessmen and women and associates who were in the same industry as they. Some individuals also said they belonged to industry-specific trade organizations because these groups allowed them to network and get advice from individuals who had *“been through it all before.”*

Local business services advisors. Fewer than 3 percent of the owners interviewed said that they had utilized a business service provider when in need of advice. Some businesses indicated that they didn't use a business services provider because they couldn't afford to pay them when they had just started their business.

- *"I have other family members who are in business for themselves, so I bounced a lot of ideas off them. I also talked to other people in the industry to find out what their challenges were. I don't think I used organizations at any time—I didn't realize there were non-profits who could help me. I assumed everything would be expensive, too expensive for me to afford at the time."*
- *"I might use a business provider now, I guess. But when I was starting out I didn't have enough money to pay them."*
- *"I don't know of any business providers in the area."*

When asked where they would send individuals just starting a business to get advice and encouragement, most established businesses named either local chambers or local ethnic chambers as the best place to get assistance.

Hiring employees. About two-thirds of the interviewed business owners said that their business had employees. This is not typical of small businesses, more firms in Santa Clara County have no paid employees than have an employee other than the owner or family members. However, the businesses identified for interviews by the ethnic chambers tended to have employees.

Many of these businesses indicated that they simply could not do all the operations of their business without the help of one or more employees. The reason most often given for hiring a first employee was: "The nature of my business is that I couldn't do it alone."

Many business owners indicated trepidation about hiring employees for their business, especially when hiring their first employee. The source of this anxiety often related to worries about finding employees who have the same passion for the business as the owner. As one business owner put it, *"Hiring someone is hard because they will never treat your business the same way that you do."*

Despite their worry, most business owners did not consider it difficult to find and hire employees. Fewer than 7 percent of all business owners interviewed indicated that they had trouble.

The vast majority of businesses made their first hire by networking through friends or family—very few businesses indicated that they had used an employment agency when hiring an employee.

- *"Hiring my first employee wasn't difficult, she was a good friend of mine who needed a job."*
- *"There's a lot of people out there, it's not hard to find someone to do what you need them for."*
- *"I don't have any problems hiring workers. I think the best way is to use word of mouth—get someone that an employee or your family knows."*
- *"There's lots of people out there, the challenge is finding the right match."*

Some business owners indicated that their biggest concern when hiring new employees was maintaining an adequate cash flow for their business. *“Hiring is hard for me because our cash flow fluctuates so much.”*

Growing a business. Just as the business owners operated a wide range of businesses, these businesses were in many different stages of growth and development. BBC broadly broke the respondents into three groups based upon the growth potential of a business—business owners who are looking to maintain their business as it is, business owners who feel that their business has a high growth potential, and those hoping to sell and retire.

Where do you see your business in 5 years? Business owners were asked what they expect their business to look like in five years’ time. About two-thirds of owners were expecting to experience no growth or modest growth (merely staying competitive, or adding only a few employees to get by). About 10 percent of owners indicated that they hope to be retired in five years. One-quarter of the businesses expected their business to experience very high growth.

When asked how they would achieve these goals, most business owners said that they would rely on their own knowledge to achieve these goals.

Challenges for business owners looking to retire. Most business owners who are hoping to retire expressed anxiety about how to turn their business over to a new owner or sell their business. Some thought they could sell outside the family.

- *“It’s difficult to turn over the business. I’m getting ready to retire, but nobody wants to operate a grocery store when they could be working in high tech and making more money.”*
- *“We’re looking for a young couple who can take over our business [producing Japanese sweet cake]. But they would need to make a huge time commitment [to learn the technique used to make the cake] and we haven’t found anyone yet.”*
- *“It is difficult. However, I agree with what I was once told: organize around the function, not the person. Even if you have a willing family member, if that person can’t do the function, you need to find someone else.”*
- *“Most business owners want to keep it in the family. But sometimes the next generation doesn’t want it. You can’t force them to take it—they have to be passionate about the business for it to be successful.”*
- *“If you have a good business, someone will be willing to buy it from you.”*

Ethnic business owners who are recent immigrants were particularly concerned about turning over their business to a younger generation.

- *"I don't have a good solution. It's a shame that some businesses are shutting down because the younger generation doesn't want to continue. We need to market these businesses to new Japanese families since the fourth and fifth generation is so far removed. They've totally assimilated to American culture and don't want to take over the businesses. I recently met a young Japanese American who was second generation—that's the kind of person who will take over the shops."*

When asked if they had any advice for a business that was looking to close or change ownership, most business owners did not have any advice since they had not gone through the experience themselves.

Challenges for business owners seeking to maintain their business. The majority of surveyed business owners were satisfied with the position of their business. These were the "new maintainers," "established family maintainers," and "established beyond-family maintainers." Most of the business owners interviewed fit one of these groups. If they expected any change in their business at all, it was very limited.

- *"It's enough just to make sure I remain profitable."*
- *"I hope to have a self-sustaining business such that it only requires a little of my time."*
- *"We'd like to branch to another location."*
- *"I hope to move [my restaurant] to a better location. Maybe I'll be able to own the property instead of renting."*

Business owners who are seeking only to maintain their business anticipate threats to the status quo rather than new challenges and opportunities. Their concerns often reflect perceived changes in the demographics of Silicon Valley, changes in technology, or other industry or region-specific problems. They want to stay competitive and in operation, but can't always justify the expenses they incur to accomplish this. They probably will not seek assistance, instead *"working it out on my own."*

Challenges for business owners seeking high growth opportunities. A portion of the surveyed business owners expected their companies to expand rapidly in the coming years. These businesses include "new growth dreamers," "established growth dreamers" and "growth planners."

Most business owners expecting high growth were very confident in the product that their company offers, whether it is a restaurant, a technology company or a furniture maker seeking to develop her work into a full-sized furniture store. However, they understood that they would face many challenges along with growth. For example, about one-half of the "growth planners" were concerned about the ability to gain access to the capital that will be required in order to make their business "take the next step."

Other owners of high-growth businesses said their biggest challenges concerned the internal development of their firm. *"I am learning how to establish a growing sales team and promote within the company [to grow organically]."*

Business owners were asked about specific services they were interested in receiving from their chamber service providers or others.

- When asked about availability of classes, more than half of the respondents would attend classes and seminars on a variety of business subjects. Many suggested that classes would be better attended if they were offered in the evening. New business owners were particularly interested in these classes.
- Of the ethnic businesses interviewed, nearly half said that they would take advantage of Internet classes that address small business needs.
- Nearly half of the businesses were interested in having a small business counselor come to their place of business.
- Firm owners were interested in finding out about organizations that have business planning experts on hand (especially business owners with high growth plans). Many business owners emphasized that business service providers are of little value to them if they do not have hands-on experience in small business operations. Many were looking for experts who have been in business longer than they have been.
- Businesses of all three “growth” types showed significant interest in learning more about marketing. More than two-thirds of the business owners showed interest in having more marketing opportunities made available to them.
- Only some of the business owners wanted more information on writing or enhancing a business plan. For example, many “growth planners” were interested in this help but none of the “growth dreamers” showed interest in writing a business plan.

When asked if they would like follow-up contact from the chambers, about one-half of the business owners interviewed answered “yes.” New businesses and owners with high growth plans were most interested in follow-up.

Conclusions

Compared with other Californians, Silicon Valley residents are not lagging in the number of people currently starting businesses or operating new businesses. However, the share of employment in non-tech-related small businesses in Silicon Valley is below that of the rest of California and the U.S. for certain industries.

Factors contributing to the success of the high-tech industry in the San José metro area do not typically help other local industries. The high wage rates, real estate prices, taxes and cost of living in the area also work against non-tech-related new firms or small businesses.

Non-high-tech entrepreneurs need help at all stages of their business life, from start-up financing to hiring their first employee to selling the business and retiring. The dense social networks and strong relationships between citizens that help entrepreneurs grow successful enterprises and take calculated risks in other communities are not as strong in Silicon Valley. These entrepreneurs are currently relying on their personal networks or an *“I had to learn it all on my own by working hard”* approach.

The *“learn-by-doing”* and *“ask my dad”* approach to starting or maintaining a small business happens in part because local entrepreneurs either don’t know about small business service providers in their area or believe that they can’t afford to use these providers. Small business owners interviewed by local ethnic chambers of commerce expressed a need for help with marketing, developing business plans and solving other common small business problems. Business owners would like help from experienced councilors and through classes.

SECTION V.

Summary and Recommendations

Key Findings

Results of this research effort can be summarized around six key findings:

1. Silicon Valley is a center for high-tech start-ups. Over many decades, growth of the local high-tech industry has principally come from new firms, not old firms.

“High-tech” in Santa Clara County may have meant semi-conductors in the 1960s, computers in the 1970s and 1980s, and harnessing Internet technology in the 1990s, each of which are very different industries. (For convenience, BBC uses “high-tech” as shorthand for this innovation economy throughout this report even though it is an imprecise descriptor of this sector.) The firms formed in one wave of the technology cycle were usually not the firms that responded to the new waves. In the economic literature, this is often called “creative destruction”: entrepreneurs capitalize on emerging technology bypassing previously dominant firms. These new firms often cluster, and a support network of advisors, finance and support services develops to help create and grow these new firms.

2. Although new firms are behind the growth of the high-tech sector, small businesses are not important in the Silicon Valley high-tech industry. The support network for high-tech entrepreneurship is not designed to help small businesses, it focuses on “infant giants.”

Businesses with fewer than 20 employees account for a small share of high-tech employment in Silicon Valley. For example, in 2002, only 19 percent of employment in Santa Clara County professional, scientific and technical services was in firms with fewer than 20 employees (compared with 25 percent for all of California). In the manufacturing and information sectors, Silicon Valley also had a relatively small share of employment in small businesses (7 percent and 6 percent, respectively, also below California).

The number of high-tech sector businesses in Santa Clara County is also low relative to other areas. For example, among highly-educated people in the Santa Clara County professional, scientific and technical services sector, just 14 percent are business owners, about one-half the rate as for California as a whole.¹ This is also true for other sectors related to the high-tech industry. Education, age, gender, race/ethnicity and marital status of people in these high-tech industries, all of which affect likelihood of being business owners, were included in the BBC regression analyses that showed lower rates of business ownership in the San José metro area.

If the success of high-tech in Silicon Valley over many decades is not due to high rates of entrepreneurship and development of small businesses, what is it about? As noted by Thomas Hellman, the prevailing culture in Silicon Valley high-tech favors “infant giants” rather than small

¹ BBC Research & Consulting using 2000 U.S. Census 5% Public Use Micro-sample Data. Available at: <http://www.census.gov/Press-Release/www/2003/PUMS5.html>

firms.² Infrastructure and support are available for the “next big idea” and firms positioning themselves for rapid growth. In general, being a small business in the Silicon Valley high-tech industry is just a short-lived stage toward becoming big or leaving the industry (dying, merging or being acquired). Past studies demonstrate that venture-backed high-tech start-ups become large firms much more quickly than in other areas in California.³ Venture capital firms prefer to invest in high-risk, potential high-growth “infant giants” rather than supporting more traditional small businesses.⁴

3. There is little about the forces of high-tech entrepreneurship that carries over to other sectors of the Silicon Valley economy.

Why, given the discontinuities in technological innovation, has a disproportionate share of new high-tech firms in the U.S. been formed in Silicon Valley? There is a considerable literature on the culture of high-tech entrepreneurship in Silicon Valley.

- ***Mobile, flexible labor force.*** Zhang found that many more spin-offs came out of the large high-tech firms in Silicon Valley than the high-tech firms in Boston.⁵ Silicon Valley has benefited from a highly mobile labor market and entrepreneurial culture in the high-tech industry that encourages diffusion of knowledge and spurs employees to leave established firms to form new ones.⁶ Other high-tech centers such as Boston have a culture in which employees are more likely to stay with large, established firms.
- ***Centers for higher education.*** In addition to a mobile labor market, the educational infrastructure surrounding Santa Clara County contributed substantially to the technology boom. Revenues from the top 100 “Stanford-related” start-up ventures have accounted for as much as 60 percent of the total revenues in Silicon Valley.⁷ Stanford and other local universities also feed the local labor pool.⁸
- ***Support network for high-tech start-ups.*** Silicon Valley has a well-established network of support services to help establish new firms and bring new ideas to market.⁹ Beyond the venture capital firms, attorneys, accountants and other professional services firms that service this industry, there are many high-tech firms available for out-sourcing of work from start-ups.

² Thomas F. Hellmann. 2000. “Venture Capitalists: The Coaches of Silicon Valley.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 276-294.

³ Junfu Zhang. 2003. *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. Public Policy Institute of California. p. 38-40.

⁴ Ibid.

⁵ Junfu Zhang. 2003. *High-Tech Start-Ups and Industry Dynamics in Silicon Valley*. Public Policy Institute of California. p. 50-51.

⁶ Annalee Saxenian. 1996. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Harvard University Press.

⁷ James F. Gibbons. 2000. “The Role of Stanford University: A Dean’s Reflections.” *The Silicon Valley Edge: a habitat for innovation and entrepreneurship*. Stanford University Press. p. 200-217

⁸ Ibid. p. 214.

⁹ Martin Kenney and Urs Von Burg. 2000. “Institutions and Economies: Creating Silicon Valley.” *Understanding Silicon Valley*. Stanford University Press. p. 218-240.

According to interviews with local business people outside of the high-tech sector, few if any of these advantages for high-tech carry over to other industries. A new firm or existing small business that is outside the innovation economy may not benefit from the systems in place to develop high-tech firms.

The firms that BBC studied outside of the high-tech sector included businesses that operate within local ethnic minority communities. According to local interviews, these business communities have few linkages to the infrastructure that exists to support high-tech businesses.

The traditional importance of high-tech sectors in the local economy may work against other new firms or small businesses. The cost of living in Silicon Valley is high, making it difficult for an entrepreneur to afford to live in the region while starting a business. Labor costs in Silicon Valley are high, a disadvantage for firms outside the high-tech sector. In interviews with local small business owners, the high cost of real estate and high taxes were also cited as reasons why Silicon Valley was not a good place to start and own a small company.

4. The local small business sector is relatively small outside of the high-tech industry.

In local industries such as construction, wholesale and retail trade, and services, small businesses account for a relatively small share of Silicon Valley employment. Rates of business ownership in these sectors are low as well, even after controlling for race/ethnicity, gender, age, education and other characteristics of workers in these industries.

Perhaps in part explanation for the low share of small business employment, and in part a symptom of the weakness of small businesses, are the wage disparities between small and large businesses in Silicon Valley. Across California, small firms have lower payroll per employee than large firms, but this differential in payroll per employee is greater between small firms and large firms in Silicon Valley. For example, in the Silicon Valley wholesale trade sector small firms pay 57 cents for every \$1 that large firms pay per employee, even lower than found for the state as a whole.

5. Even though the small business sector in Silicon Valley is relatively small and rates of business ownership lag other areas, entrepreneurship is important.

Viewed statically, small businesses account for a small share of the San José metro area employment (about one-fifth of employment in small firms including firms with 1-19 employees and firms employing only the owner or his or her family).

A snapshot of business by size, however, ignores the dynamic nature of a regional economy. Even though other sectors may not rely on “gazelle” firms for growth as much as found in the high-tech industry, employment growth across sectors of a local economy is usually generated by start-ups plus small businesses that grow into large firms. This is true across California.

About 95,000 San José metro area residents are in the process of forming new businesses based on a random household telephone survey completed as part of this study (9 percent of Silicon Valley adults, about the same as California or the U.S.). San José adults appear to be “pulled” toward entrepreneurship rather than pushed by economic hardship. Most of these individuals say they are starting companies to take advantage of business opportunities and few say that they have no better options for work (no differences from motivations for other California entrepreneurs).

Twenty percent of San José metro area adults say that owning their own business is a personal goal based on the BBC telephone survey. About 44 percent of San José area adults agreed that there are “good opportunities for starting a business” in their community in the next 6 months, the same as found for adults in other parts of California.

Entrepreneurship and success of small businesses may be particularly important in minority communities in the San José metro area. In certain sectors, entrepreneurship is a successful way for racial and ethnic minorities to build wealth.

There are other reasons why small businesses strengthen a region. Locally-owned small businesses may build a sense of community and create networks for addressing community social issues.

6. San José metro area entrepreneurs need assistance, but rarely turn to local business assistance providers.

BBC identified challenges for entrepreneurs at each stage of forming, establishing and growing a business, and when they want to sell or retire from the business. Most entrepreneurs seek information and advice, but rarely from local business services providers.

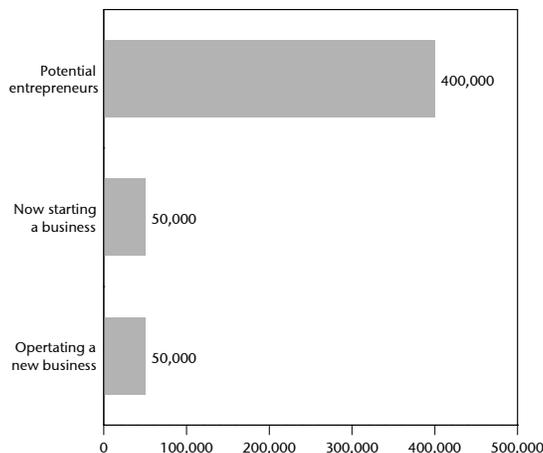
Nearly 100,000 San José metro area adults are in the process of starting a business. Another 400,000 Silicon Valley adults have thought about starting a business or have owning a business as a personal goal. A small fraction of these individuals access local business services providers for assistance. A large proportion of new business owners rely on encouragement and advice from friends and family when first starting a business (also a source of initial financing).

BBC identified challenges for entrepreneurs at each stage of forming, establishing and growing a business, and when they want to sell or retire from the business. Most entrepreneurs seek information and advice, but rarely from local business services providers. Some entrepreneurs turned to other community networks such as churches or ethnic chambers. Very few of the minority business people surveyed said that they had obtained help from a business assistance provider in Silicon Valley. Some had a negative reaction to their initial meetings. Some business owners perceived cost barriers to using business services providers.

Figure V-1.
New and potential entrepreneurs in the San José metro area, 2006

Note:
Potential entrepreneurs are Santa Clara County adults who have thought about opening a business or have owning a business as a new personal goal.
New businesses are those operating for less than four years.

Source:
BBC Research & Consulting form 2006
Santa Clara County Household Survey.



When asked what advice they would give someone looking to start a new business, more than a third of the business owners interviewed in this study stated that entrepreneurs need to “do their homework” prior to starting a business. Many business owners said that the entrepreneur should focus on financing, planning a marketing strategy and developing a thorough understanding on how to operate the new business. In specific industries such as childcare, individuals indicated that licensing and paperwork were significant challenges.

Each stage in the life cycle of a business presents new challenges for the owner. For example:

- Business owners seeking high growth may be very confident in the product that their company offers, but are concerned with accessing the capital required for growth or developing the internal systems to accommodate a larger operation.
- In the interviews with minority businesses, a number of business owners wanted to sell their businesses or retire. They often did not know how to go about finding a new owner, and many were uncomfortable with giving up control of their businesses. Some owners may close their businesses because they cannot successfully address these challenges.

A New Integrated System of Assisting Entrepreneurs

Overview. Based on the findings of both phases of the small business study, BBC recommends that SVWIN, business services providers, local governments, local chambers and others work together to build an integrated system that better supports entrepreneurship in Silicon Valley. We have outlined a vision of this network that includes bricks and mortar and virtual elements designed to help people in the process of starting businesses and existing business owners. This system includes public sector agencies, not-for profit and membership organizations, colleges and universities, and the private sector.

Objective. There is currently a gap between the entrepreneur and the knowledge necessary to successfully start, operate, expand and eventually retire from or sell a business. The focus of this improved business assistance network should be to help entrepreneurs more quickly and easily close this gap. It should address the often expressed problem of “you don’t know what you don’t know” by helping entrepreneurs anticipate issues and get in front of problems (avoiding chasing problems that could have been avoided).

The first step in this assistance is giving people who are considering starting a business the facts necessary to better understand all that is involved in this decision. For example, potential entrepreneurs should be coached on when to quit a job to devote all their time to a new business and be informed of the range of financial commitments typically needed for different types of start-ups.

The network should also seek to remove some of information barriers on how to expand a business (e.g., how to move a business from the informal to the formal sector, find space, hire staff, pay taxes, incorporate and obtain equipment financing) so that business owners can make better decisions on whether they might expand.

Target population. Current business owners, those starting businesses and people thinking about starting businesses should be the target population. There are currently more than 500,000 of these individuals in Santa Clara County.

The target population ranges from experienced business owners to people with little business experience and perhaps little education. A portion of the target population speaks a language other than English.

Silicon Valley should be the target geographic area for this assistance.

Implications. This definition of the objective and target population would require a shift in thinking within the typical small business assistance system (in Silicon Valley or elsewhere):

- Many business assistance networks focus on existing firms. BBC recommends that this focus be expanded to include people currently in the process of starting businesses plus those who are thinking about starting a business in the future. These entrepreneurs have widely varied backgrounds and prior experience in business. Some may face language barriers or may be recent immigrants to the United States.

The current business assistance network is more likely to capture entrepreneurs when they are obtaining a business license or moving into a non-home business location, which is too late in the process. Entrepreneurs need assistance before these stages of development. Some business owners never move their businesses out of the home.

- The size of the target population, about 500,000 people, is a major consideration when designing delivery systems.
- The overall philosophy should be to help many thousands of entrepreneurs in small ways instead of selecting a few entrepreneurs to assist in a big way.
- Giving entrepreneurs information to make better decisions should be the focus of the assistance. For some potential entrepreneurs, the result will be not to go into business or to shift their focus of business. For some existing business owners, better information may dissuade them from major expansion plans. For others, the information may remove barriers and enable them to further invest and increase their staff.

Because success of the network cannot be measured in new businesses or jobs created, SVWIN and its partners will need to develop customer-based satisfaction measures (e.g., number of clients reached, depth and range of service, and satisfaction and customer-perceived impact of the service).

- To bridge the gap between entrepreneurs and business knowledge, SVWIN and its partners will need to develop systems that anticipate entrepreneurs' problems and challenges and deliver the needed information at the ideal time for addressing these challenges, not afterward. This new approach must solve the entrepreneur's dilemma of "you don't know what you don't know."

- Information available to business owners should not be rationed based on the size or line of work of the business (i.e., there are no target sectors recommended here). SVWIN and its partners should develop assistance delivery models that avoid most of the need to ration access to information. This philosophy helps SVWIN and others avoid having to pick winners and losers among local entrepreneurs. Certain assistance providers will still need to consider these factors when deciding eligibility for low-interest loans or space in an incubator, for example.
- The person, website or print material that delivers the needed information must immediately be seen as a respected, credible source of that information by the entrepreneur.
- The network of information and assistance services must be known to entrepreneurs to be useful to the target population. Providing a service, but not marketing it, does not help Silicon Valley entrepreneurs.

Assistance delivery methods. Traditional brick and mortar or classroom-style methods of assisting the target population will never serve a target population of 500,000 current and potential entrepreneurs in Silicon Valley, or even just the 50,000 individuals currently in the process of starting businesses. Further, most entrepreneurs do not have the time (or will not make the time) for multi-session classroom-type training.

Opportunities for training and advice should range from in-depth courses to quick answers to entrepreneurs' questions over the phone or via e-mail. The current assistance system is heavily weighted toward courses and workshops. When entrepreneurs face certain business issues, they often require immediate assistance. A class a month away on a general topic may not meet their needs.

BBC recommends two parallel components of the information and assistance delivery system: (a) bricks and mortar, and (b) a virtual assistance network. The first system refers to services delivered in person, often at the offices of an assistance provider. The latter, similar to a virtual business incubator, describes all of the types of assistance not delivered in person. The virtual system can be accessed by an entrepreneur from anywhere within the service area. It includes phone and e-mail-based assistance in addition to web or print-based assistance. Both parts of the system are important to Silicon Valley entrepreneurs.

Bricks and mortar. Business assistance systems in the United States have typically grown up around physical sites, whether they are small business development centers, chamber offices, banks, or the office of a private sector attorney or accountant.

The role of bricks and mortar in serving customers is undergoing change throughout the U.S. economy. For a business assistance network, personal interaction with entrepreneurs at a fixed location may be best suited to a first meeting with a new customer and delivery of certain classes or workshops. A physical location also acts as a billboard to attract walk-in business, distribute marketing materials and give the customer a sense of confidence in the organization. The building is one portal into the network.

Brick and mortar components of the Silicon Valley business assistance system include the business center at San José City Hall, local chambers of commerce including the ethnic chambers, the eCenter and SVWIN One-Stops.

Based on BBC's research, it does not appear that local attorneys, accountants and bankers are integral parts of the local business assistance network. These business and personal advisors should be among the most important portals into the system.

Virtual assistance network. The "virtual" part of the assistance network may be anything without a physical location where clients meet with provider staff. In New York City, for example, this would include:

- The "call 311" city services hotline number;
- Ability to e-mail business questions to NYC Department of Small Business Service Staff; and
- Information, workbooks and links on the NYC Small Business Solutions website (and pamphlets and other printed information).

Chambers and other partners with city government provide many other information resources on the linked websites. For example, new retail businesses receive advice on such details as how to operate a vehicle for business in New York City.

These ways of obtaining small business assistance are coupled with eight Small Business Solutions Centers located throughout New York City as well as chamber offices, small business development centers, college and university centers and other sites.

Other examples of the components of virtual networks include:

- On-line courses (see, for example, the Central California Hispanic Chamber's free on-line course on how to start a business).
- How-to-start a business guides (see The Greater Austin Chamber's free guide).
- The Charlotte Chamber in North Carolina provides an interactive map and database on its website to help entrepreneurs find office and industrial space.

Mountainland Economic Development Commission in Provo, Utah provides one example of an integrated virtual incubator. A virtual incubator concept is similar to a traditional business incubator without walls. Individuals throughout Mountainland's multi-county service area could participate in the incubator without having to locate their businesses at a specific site.

Appendix E provides additional background on examples of virtual components of business assistance networks as well as web addresses or other contact information for each example.

BBC did not find examples of business advice discussion forums or chat rooms sponsored by groups such as SVWIN. These might be other promising ideas in Silicon Valley.

Content. SVWIN and its partners should do more to develop the virtual side of the assistance network. It provides the only opportunity to meet the volume of assistance needed in Silicon Valley, plus deliver the information on an on-demand basis. To be useful, business assistance services must be “just-in-time” for the particular needs of a business owners at his or her stage of business development. This varies from initial planning of a business to counseling a retiring business owner on selling her firm. Information must also be tiered to reflect the differences between individuals with substantial experience or education in business and people with limited background in operating companies. A portion of new business owners are those who just purchased existing businesses. They have unique needs as well.

SVWIN and its partners can look to agencies such as those listed above as examples of what can be done on-line to provide knowledge to different types of entrepreneurs. New York City organizes this information around stage of business development, and in some cases, industry (see Appendix E). BBC recommends that there be many different tiers to the information provided that match the level of sophistication and stage in the business life cycle. Over time, SVWIN and its partners should develop as much industry-specific content as possible, perhaps working with similar organizations throughout the country. In the mean time, the Silicon Valley network can include as many links to industry-specific assistance websites as possible.

Language and other communications issues. Basic business assistance information should be available in Spanish and perhaps other languages. Many Hispanic business chambers throughout the country have materials in English and Spanish on their websites, for example.

Due to the size of the on-line information envisioned for the virtual network, it is too large an assignment to immediately translate all of the English-based materials into other languages.

Inability to read on-line materials, whether in English or other languages, is an issue for others as well. This points to the importance of having professionals in the assistance network who can personally assist business owners in many different languages.

Client management. Ideally, an entrepreneur experiences the business assistance network as one entity with many options for how to access different types of services.

Role of the business services professional in the network. The assistance network should have many human faces, not just consist of websites. However, because much of the information needed by business owners can be conveyed through the virtual network, the role of the individual staff person changes.

The human point of contact in the network must immediately convey professionalism, credibility, trust and understanding. Staff interacting with entrepreneurs should have an enthusiasm for business development and sensitivity to how entrepreneurs of different backgrounds may react to staff feedback and guidance. Staff should be selected and trained so that each entrepreneur is treated with honesty and respect. There was some feedback from the ethnic chamber interviews that some minority business owners had not been treated in this way when they interacted with certain business services providers.

In sum, the business services professionals interacting with clients will need to have the experience and credibility similar to other senior business advisors such as accountants, bankers and attorneys. Junior staff without business training or experience should mostly be in roles that support the business services professionals.

Initial interviews with the entrepreneur. The network should offer the opportunity for an in-person meeting with a network staff person to discuss business goals and needs, and to discuss information, training and other services available through the network. The network staff person can explain how to access the virtual network, set up a user account and ID number and help the entrepreneur navigate the available information.

Ideally, this enrollment of a new client should be able to take place at any physical site within the network (e.g., from San José City Hall to a college or chamber location). Individuals conducting the initial interview should be trained and approved by the network members. Alternatively, any member organization of the network should be able to send a staff person to conduct an initial interview at the entrepreneur's home or office, or other site. The network should develop funding to be able to reimburse the network member for the time spent conducting the initial interview with the entrepreneur. A database of entrepreneurs who have completed initial interviews should be maintained so that organizations do not duplicate efforts.

Tracking of individual clients. When first accessing the network, each entrepreneur should be given the option of obtaining an identification number (when first accessing the bricks and mortar or the virtual network). This allows the entrepreneur to create virtual files of information and links for later reference. The entrepreneur should also be able to sign up for automatic e-mail notification of new information, classes or other items. The ID number would be at no cost. The entrepreneur could remain confidential if desired. All users with an identification number would have a password.

When accessing other services within the network, the entrepreneur would have the option of giving the ID number. The ID number should be universal among the service providers in the network.

The virtual network should also be open to anyone accessing the sites whether or not they have an ID number. Without the ID number, the user would not be able to use special features such as saving files or automatic e-mail notification.

Ongoing client interaction. If funding can be developed for this service, the professional conducting an initial interview with an entrepreneur should be tasked with periodic follow-up for that individual via telephone or e-mail. Some entrepreneurs may have follow-up business issues that are best discussed in person. The client representative should fill out tracking reports indicating how the business has progressed, the information accessed or other services used by the entrepreneur, and the client's feedback on these services (positive and negative, and suggestions for what could be changed or added).

Other human elements in the network. Mixers and meet-and-greet sessions have been the bread and butter of chambers across the country. Yet, these are among the most criticized elements of chambers' activities by small business owners. BBC received similar feedback in both phases of this small business study in Silicon Valley.

Ways to improve the marketing and networking that can occur in a business assistance network include:

- Creative redesign of meet-and-greet sessions has helped the San Antonio Hispanic Chamber of Commerce double membership. Through facilitator-driven networking exercises in a round-table forum, participants move from table to table providing greater training and networking exposure.
- Monthly luncheons at the Women's Chamber of Commerce of Texas and other chambers combine networking opportunity with information gathering. Guest speakers on a variety of subjects from marketing strategies to surviving economic downturns increase overall attendance by making networking sessions informative.
- Internet-based live-voice conferencing sessions are the key to the U.S. Women's Chamber of Commerce Virtual Town Hall where business contacts are made through a virtual exchange of ideas and on-line leadership training.

Special services for business owners looking to retire or sell their businesses. SVWIN and its partners have a unique opportunity to help existing and prospective new business owners through counseling of owners looking to retire. Some of the business owners interviewed by the ethnic chambers as part of this study expressed frustration with the prospect of finding the right buyers for their business, ensuring that the business was operating successfully with the new owners, and letting go of what they had built over the years. The business assistance network may be an ideal vehicle to help counsel these business owners and put them in touch with people looking to buy existing companies. Keeping these firms in operation may also help maintain a sense of community in Silicon Valley's ethnic neighborhoods.

Cost. Services that have little marginal cost for adding a user should be provided for free. This includes access to the information in the virtual network. SVWIN and its partners should develop funding sources for the virtual network. Business owners willing to spend the time to go to the workshops are usually willing to pay a fee. These recommendations follow the practices of well-developed networks such as in New York City.

Network marketing. The entrepreneur assistance network must be marketed to a broad set of potential entrepreneurs, people actively starting businesses, and established business owners. Awareness of available services appears to be very low.

A full range of marketing methods should be employed. SVWIN and its partners should also develop a long-term communications strategy to get the word out on available services. At least 20 percent of any group of adults include people interested in starting businesses, so a wide variety of community organizations can be targeted.

Create the position of network advocate. An entrepreneur advocate or small business advocate that can represent the assistance network may be needed in Silicon Valley. This individual can be a voice for entrepreneurs and put a human face on the network. It would be important for this individual to be an advocate for businesses and recruit entrepreneurs into the assistance network across Silicon Valley communities, not just within San José. SVWIN might be a logical home organization for this advocate. This is a full-time position and would need some staff support. Fluency in Spanish would

be an asset in this position. The individual hired as the business advocate would need to have high energy and credibility, and be willing to make a long-term commitment to the position. Business service organizations would need to be confident that the business advocate would do well in indirectly representing each of their agencies.

Develop a network brand. The assistance network needs an overall identity that transcends individual service providers, chambers or other organizations. Each partner should use the “member of the ‘xyz’ network” in their communications materials. SVWIN and its partners should also work with each network member to promote the entire network.

Market to referral sources. The most effective and least expensive way to promote business assistance services are referrals from each point of entry including local chambers; attorneys, accountants and bankers; and city staff involved in permits and licensing.

Conduct direct marketing to local businesses. A simple, relatively low-cost way of marketing the network is through direct mail to local small business owners. SVWIN and its partners could send a mass mailing of post cards to business owners in Silicon Valley at a relatively low cost. This mailing would be phased in order to stagger new demand for network services. SVWIN should adopt a trial mailing to test this concept.

Recognize the importance of business chambers and professional associations. The business services network will be strong if it has strong members in the local San José Chamber of Commerce and individual ethnic chambers of commerce. Other local business and professional associations will also be important.

SVWIN and its partners should encourage local chambers to undertake the steps necessary to build membership and develop strong programming. This starts with a strong leadership and a comprehensive strategic plan for each chamber. BBC found some of the local ethnic chambers to fit this mold; others needed assistance for them to be effective partners in the future. (See San Antonio Hispanic Chamber, Hispanic Chamber of Commerce of Metropolitan St. Louis, Missouri, Montgomery Area Chamber of Commerce, and Brooklyn Chamber as examples.)

Activities that are not recommended. Many business assistance activities are valuable to individual entrepreneurs but may not be scalable to reach the target population in Silicon Valley (e.g., mentor protégé programs, traditional business incubators, and new low-interest loan programs).

Summary of integrated network. Figure V-2 on the next page provides an overview of the different business segments, their approximate size in Santa Clara County, key training and assistance needs, and BBC’s recommendations for primary and secondary methods for delivering that assistance. Assistance such as introductions to entrepreneurship and basic business planning should be provided to the largest segment, potential entrepreneurs, through the virtual network. The on-line and other virtual aspects of the network can be augmented by classroom-style classes, especially when the training pertains to starting specific types of businesses (e.g., day care, restaurants, retail, construction businesses). Individuals actively starting businesses have a greater set of assistance needs, but they should still be primarily met through the virtual network.

At the other extreme, business owners who fit the “high-growth planner” profile, and owners looking to retire, need specialized assistance best provided by individual advisors.

Exhibit V-2.
Matrix of Business Segments, Needs and Service Delivery Methods

Segment	Potential entrepreneurs	Actively starting a new business	Operating a new business	Operating an existing business		
				High-growth planners	Looking to retire	Other business owners
Approximate size in Santa Clara County	400,000	50,000	50,000	5,000+	5,000+	50,000+
Assistance/training topics						
Introduction to entrepreneurship	■					
Basic business planning	■	■	■			
Basic marketing		■	■			
Basic finance		■	■			
Basic legal		■	■			
Basic licensing, tax		○	■			
How to start a specific business*	■	■	■			
Basic hiring			■			○
Advanced marketing			■	■		○
Advanced cash management/financing			○	■		○
Space		○	■	■		○
Advanced legal			○	■		○
Advanced HR				■		○
Group networking			○	○		○
Selling business/retiring						
Introduction to buyers						
Delivery methods						
Virtual	■	■	■	○	○	■
Classroom	○	○	○			○
Group networking events						○
Personal business advisor			○	■	■	○

■ Primary ○ Secondary

* For example: Day care, restaurant, retail and construction businesses.

Role of SVWIN

There is a need for leadership and funding in developing a better business assistance network. SVWIN may be well suited to play this role. However, neither SVWIN nor the City of San José should build a large staff to directly deliver services better provided through other organizations. One of the reasons for this is that businesses will trust non-governmental sources of assistance over direct city or SVWIN assistance.

BBC recommends that SVWIN help coordinate and market the network, and perhaps fund and house a community business advocate. SVWIN might be the leader in implementing a consistent tracking and measurement system for evaluating demand for certain services and whether the quality of available services meets customer needs. It can best play these roles if it is not seen as a competitor by other small business service organizations.

APPENDIX A

Geographic Variation of Small Business Importance and Firms Per Capita

Using data from the Survey of U.S. Businesses, BBC looked at variation in small business employment among U.S. Census Bureau defined Metropolitan Statistical Areas (MSA) with more than 100,000 employees. This appendix describes the theoretical basis for our model and outlines our results.

Theoretical Foundation

In “The Determinants of Regional Variation in New Firm Formation,” Catherine Armington and Zoltan J. Acs outline a series of indicators for new firm formation based on human capital, training, education and entrepreneurial culture. Armington and Acs expressed these ideas numerically using the variables listed in Figure A-1. Additionally, Figure A-1 provides the rationale and expected direction of impact offered by Armington and Acs.

Figure A-1.
Variables used to describe regional variation in firm formation

Source: The Determinants of Regional Variation in New Firm Formation, Catherine Armington and Zoltan J. Acs. 2001.

Variable	Expected Impact On Firm Formation	Rationale
Establishment size	Negative	Larger establishment size shows greater domination by large firms
Industry density	Positive	Firms are formed due to spillover effects
Population growth	Positive	Growth leads to firm creation opportunities
Income growth	Positive	Increased industry agglomeration
Unemployment rate	Varied	Positive for low-capital industries, negative for high-capital industries
Share of proprietors	Positive	Indicative of an entrepreneurial culture
Percentage adults with no high school degree	Negative	Used as a proxy for unskilled and semi-skilled labor
Percentage adults with a college degree	Positive	Higher skilled workers are needed for firm formation

Armington and Acs found statistically significant coefficients for total regional firm formation for all variables with the exception of *share of proprietors* and *unemployment rate*.

The BBC model

BBC used Armington and Acs work as a base for our model describing employment in the small business sector and the number of firms per employee. The BBC model assumed a linear relationship between the dependent and independent variables and analyzed the model using SPSS statistical software.

Excluded variables. BBC eliminated industry density from the model because of our interest in the overall number of firms per capita and small business employment. In addition, the unemployment rate was removed due to the ambiguity of its direction of impact found in Armington and Acs' research. Finally, BBC excluded both share of proprietors and establishment size due to their close correlation with our independent variables.

Additional variables. In addition to the Armington and Acs variables, BBC included the percent of the MSA aged 40-59, the 2000 Census population, the 2000 per capita income and the 2000 Census population density. With the exception of the 2000 Census population, it was expected that an increase in each of these variables would result in higher small business employment and more firms per capita.

Data sources and Calculations

BBC used the following variables in the models to describe small business employment and firms per capita:

Dependent variables

- *Small business percentage:* Percentage of total MSA employment in firms sized 1-19, calculated from 2002 Statistics of U.S. Businesses.
- *Firms per capita:* Number of firms per employee for each MSA, calculated from 2002 Statistics of U.S. Businesses. This data excludes non-employer firms.

Independent variables

- *Percent of population ages 40-59:* Calculated from the 2000 U.S. Census Summary Table 1.
- *Percent population growth 1990-2000:* Calculated from the 1990 and 2000 U.S. Census.
- *Percent of population without a high school diploma:* Percentage of total population over the age of 25 without a high school diploma, calculated from the 2000 U.S. Census Summary Table 3.
- *Percent of population with a college degree:* Percentage of total population over the age of 25 with a bachelors degree or higher, calculated from the 2000 U.S. Census Summary Table 3.
- *Percent income growth 1990-2000:* Calculated from the 1990 and 2000 U.S. Census.

- *Population*: Total Population from the 2000 U.S. Census Summary Table 1.
- *Per capita income*: 2000 Census Summary Table 3.
- *Population density*: Total 2000 U.S. Census population divided by MSA area in square miles.

Of the 174 MSAs with over 100,000 employees in 2002, BBC excluded four from our analysis. Three due to the change in MSA boundaries between the 1990 U.S. Census and 2000 U.S. Census and one due to inadequate small business employment information from the 2002 Statistics of U.S. Businesses.

Model Results

Figure A-2 shows the results for the linear regression model describing firms per 1,000 employees.

Figure A-2.
Regression results for firms per 1,000 employees for metropolitan statistical areas with over 100,000 employees

Note:

Of the 174 MSAs with more than 100,000 employees, four were not included. One due to inadequate firm data and three due to changes in MSA boundaries between the 1990 and 2000 Census.

*** Statistically different from zero at a 99 percent confidence level

** Statistically different from zero at a 95 percent confidence level

* Statistically different from zero at a 90 percent confidence level

Source:

BBC Research & Consulting.

Variable	Coefficient (impact on firms per 1000 employees)	Statistical significance
Percent of population age 40-59	1.59 per percent increase	***
Percent population growth 1990-2000	0.02 per percent increase	
Percent population without a high school diploma	0.94 per percent increase	***
Percent population with a bachelor's degree or higher	0.93 per percent increase	***
Percent income growth 1990-2000	-0.21 per percent increase	**
Population	-0.17 per 100,000 residents	***
Per capita income	-0.49 per \$1,000 income increase	*
Population density	1.30 per 1000 residents per mile	**

Six of the variables included in the model were statistically significant at a 95 percent confidence level. The model explained about 22 percent of the variation in number of firms per 1,000 employees between MSAs after adjusting for the sample size and number of variables.

In addition, the model predicted 49 firms per 1,000 employees in San José, 7 more than the 42 firms per 1,000 employees reported by the Census Bureau. Even after controlling for demographic and economic variables, San José is still 14 percent lower than expected in firms per 1,000 employees.

Figure A-3 shows the regression results for the model of employment in firms with 1-19 employees.

**Figure A-3.
Regression results for small
business employment
percentage in metropolitan
statistical areas with over
100,000 employees**

Note:

Of the 174 MSAs with more than 100,000 employees, four were not included. One due to inadequate firm data and three due to changes in MSA boundaries between the 1990 and 2000 Census.

1. Small Business Percentage is calculated by taking the percentage of the employed population working in firms with 1-19 employees

*** Statistically different from zero at a 99 percent confidence level

** Statistically different from zero at a 95 percent confidence level

* Statistically different from zero at a 90 percent confidence level

Source:

BBC Research & Consulting.

Variable	Coefficient (impact on small business employment) ¹	Statistical significance
Percent of population age 40-59	0.51 per percent increase	***
Percent population growth 1990-2000	0.01 per percent increase	
Percent population without a high school diploma	0.28 per percent increase	***
Percent population with a bachelors degree or higher	0.26 per percent increase	***
Percent income growth 1990-2000	-0.07 per percent increase	**
Population	-0.05 per 100,000 residents	***
Per capita income	-0.16 per \$1,000 income increase	*
Population density	0.26 per 1000 residents per mile	

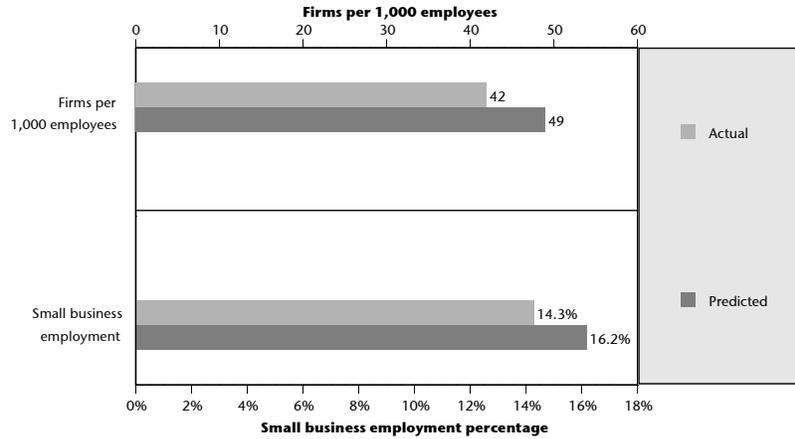
The model has several statistically significant coefficients (five at a 95 percent confidence level and six at a 90 percent confidence level); it describes about 25 percent of the variation in small business share of total employment between MSAs.

The model predicts a small business percentage of 16.2 percent for San José, higher than the actual 14.3 percent reported in the 2002 Statistics for U.S. Businesses. As a result, even when controlling for economic and demographic differences, the San José area is still 12 percent lower than expected in small business employment.

Figure A-4 on the following page shows the actual and predicted results for firms per employee and the percentage of small business employment in the San José area.

Figure A-4.
Actual vs. predicted
firms per 1,000
employees and small
business percentage

Source:
 BBC Research & Consulting.



Conclusion

The model provided by Armington and Acs provides a base for understanding regional variation of small business employment and firms per 1,000 employees. Both models predict higher results for the San José metropolitan area than reported by the U.S. Census, even when controlling for demographic and economic variables. In other words, there is still a large gap between the relative strength of small business in the San José metro area and what would be expected based on the characteristics of the metro area.

APPENDIX B.

Self-Employment Regression Results

BBC developed statistical models of self-employment rates for workers in specific industries in California to determine whether rates of business ownership among Santa Clara County residents were lower than workers in the rest of the state. We separately examined workers with college degrees and workers without college degrees in each of these industries. BBC developed 11 regression models, each corresponding to highly-educated or less-educated workers within an industry that, upon initial review, appeared to have statistically significant differences between self-employment rates in Santa Clara County and California as a whole (examining sectors for which rates were lower in Santa Clara County).

The regression analysis used 2000 U.S. Census Public-Use Micro Sample (PUMS) Data for California and included San José MSA as an independent variable. BBC used a probit regression specification. PUMS weights were included in the calculation of the coefficients using the survey probit function in STATA.

Regression Variables

Independent variable. BBC used the “class of worker” variable from the PUMS data set for determining self-employment. Residents were counted as self-employed if they indicated they were either “Self-employed in unincorporated business or company,” or “Self-employed in incorporated business or company.” In the probit analysis, self-employment was represented as a binary variable.

Dependent variables. All dependent variables were adapted from PUMS variables. The specific variable definitions are:

- *Santa Clara County resident* — One represents a Santa Clara County resident, zero represents an individual from the balance of California;
- *Female* — One represents female, zero represents male;
- *Age and age squared* — Integer variables;
- *Race and ethnicity* — A series of binary variables for specific race-ethnicity combinations: one represents individual race and zero represents non-Latino white residents;
- *Homeowner* — One represents a homeowner, zero represents renting or other non-paying occupant.
- *Bachelor’s degree* — One represents completion of a bachelor’s degree but non-higher degree, zero represents no bachelor’s degree or completion of a graduate degree;

- *Graduate degree* — One represents the completion of a graduate or professional degree, zero represents no graduate degree;
- *English proficient* — One represents native English speaker or “very well” or “well” response to English ability inquiry, zero represents “not well” or “not at all” response to English ability inquiry;
- *Married* — One represents currently married, zero represents currently unmarried;
- *Some college* — One represents completion of any college without earning a degree, zero represents no college coursework.
- *High school diploma* — One represents completion of a high school diploma with no additional education, zero represents no high school diploma or earning a diploma in addition to some college coursework.
- *Other worker in the home* — One represents more than one worker in the family, zero represents no additional workers in the family.

Regression Methodology

BBC used the standard probit methodology for analyzing self-employment data. The probit model is based on a normal cumulative distribution function. In *Basic Econometrics*, Damodar N. Gujarati derives probit analysis from a utility framework, assuming that an individual becomes self-employed due to a perceived increase in utility.¹ Gujarati borrows this utility-based analysis from Daniel McFadden.² This approach for dichotomous dependent variables has become the standard econometric technique for analyzing individual decisions such as self-employment.³

The coefficients of probit analysis return the change in the cumulative normal probability distribution given one unit change in the dependent variable. In other words, the coefficients measure “the effect of the independent [variable] on the Z score of the dependent [variable].”⁴ As a result, interpreting probit coefficients is more difficult than interpreting coefficients for a linear regression or logit model. In the most simple terms: positive coefficients indicate an increase in the probability of self-employment and the larger the magnitude of a coefficient, the greater the relative impact of the given independent variable.

¹ Damodar N. Gujarati. *Basic Econometrics*. p. 608-615. McGraw Hill. New York. 2003.

² Daniel McFadden. “Conditional Logit Analysis of Qualitative Choice Behavior.” In P. Zarembka (ed.) *Frontiers in Econometrics*, Academic Press, New York. 1973.

³ Rose Anne Devlin. “The Determinants of Earnings and Training for the Self-Employed in Canada – November 2001.” Applied Research Branch Strategic Policy Human Resources Development Canada. 2001. Accessed at <http://www11.hrsdc.gc.ca/en/cs/sp/hrsdcrarb/publications/research/2001-000078/2001-000078.pdf> p. 29; and Wayne Simpson and Robert Sproule. “Econometric Analysis of Canadian Self-Employment Using SLID.” 1998. Income and Labor Dynamics Working Paper Series. Accessed at <http://dsp-psd.communication.gc.ca/Collection/Statcan/75F0002MIE/75F0002MIE1998016.pdf>.

⁴ G. David Garson. “Log-Linear, Logit and Probit Models.” 2006. Accessed at: <http://www2.chass.ncsu.edu/garson/pa765/logit.htm>.

For these analyses, BBC assumed the affect of demographic characteristics such as race, ethnicity and marital status was consistent between Santa Clara County and the balance of California. BBC separated the self-employment analysis by education level, constructing two models for each sector. The effect of residing within Santa Clara County on the probability of being self-employed is modeled by a dummy variable for Santa Clara County.

BBC created one model for individuals with at least an Associate's degree and another model for individuals with no-college degree. This method allows for variation of the impact of the included independent variables across these groups of workers.

Before conducting the probit analysis, BBC performed a standard difference in proportions test for self-employment by sector (2-digit NAICS) using the 2000 U.S. Census Public Use MicroSample Data. BBC created probit models for sectors where the difference in self-employment rates between Santa Clara County and the remainder of California were statistically significant at a 95 percent confidence level.

Results

The following 13 pages describe results of each industry/education combination examined here.

Self-employment in the construction sector – residents with a college degree

Santa Clara County residents working in construction with a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 95 percent confidence level and had a smaller impact than gender and most of the race and ethnicity variables. The impact of Santa Clara County residence was comparable with English proficiency and greater in magnitude than either of the education variables.

Figure B-1.
Self-employment in the construction sector – residents with a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1545	0.0769	**
Female	-0.4260	0.0460	***
Age	0.0835	0.0081	***
Age squared	-0.0007	0.0001	***
Other workers in the home	-0.0120	0.0251	
Homeowner	0.0816	0.0377	**
Bachelor's degree	0.0917	0.0351	***
Graduate degree	0.0484	0.0475	
English proficient	-0.1773	0.0963	*
Married	-0.0039	0.0381	
Hispanic	-0.2335	0.0644	***
Black	-0.4272	0.0938	***
American Indian	0.2557	0.1310	*
Asian	-0.2156	0.0576	***
Native Hawaiian/Pacific Islander	0.1536	0.3371	
Other race	-0.1684	0.0763	**
Constant	-2.6894	0.2118	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the information sector – residents with a college degree

Santa Clara County residents working in the information sector with a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had an impact similar to gender and most of the race and ethnicity variables. The impact of Santa Clara County residence was comparable with English proficiency and greater in magnitude than the homeownership variable and the marriage variable.

Figure B-2.
Self-employment in the information sector – residents with a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.2576	0.0668	***
Female	-0.1943	0.0315	***
Age	0.0478	0.0079	***
Age squared	-0.0003	0.0001	***
Other workers in the home	-0.0312	0.0290	
Homeowner	-0.0196	0.0366	
Bachelor's degree	0.2291	0.0465	***
Graduate degree	0.1905	0.0527	***
English proficient	0.1804	0.1412	
Married	0.0266	0.0387	
Hispanic	-0.3097	0.0774	***
Black	-0.2520	0.0759	***
American Indian	0.0885	0.1606	
Asian	-0.4060	0.0526	***
Native Hawaiian/Pacific Islander	-0.4431	0.4443	
Other race	-0.0186	0.0981	
Constant	-2.9090	0.2275	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: 2000 U.S. Census Public-Use Micro Sample Data and BBC Research & Consulting.

Self-employment in the professional, scientific and technical services sector – residents with a college degree

Santa Clara County residents working in the professional, scientific and technical services sector with a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level. The impact of Santa Clara County residence was greater in magnitude than each of the other binary variables with the exception of a graduate degree.

Figure B-3.
Self-employment in the professional, scientific and technical services sector – residents with a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.3932	0.0280	***
Female	-0.0963	0.0162	***
Age	0.0897	0.0038	***
Age squared	-0.0006	0.0000	***
Other workers in the home	0.0033	0.0137	
Homeowner	0.1258	0.0192	***
Bachelor's degree	0.2563	0.0284	***
Graduate degree	0.4271	0.0287	***
English proficient	-0.0692	0.0750	
Married	0.0362	0.0191	*
Hispanic	-0.2335	0.0402	***
Black	-0.2483	0.0471	***
American Indian	-0.0088	0.0798	
Asian	-0.3693	0.0232	***
Native Hawaiian/Pacific Islander	0.0780	0.1721	
Other race	-0.0283	0.0540	
Constant	-3.5604	0.1212	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the retail sector – residents with a college degree

Santa Clara County residents working in the retail sector with a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a larger impact than gender, the education variables and homeownership.

Figure B-4.
Self-employment in the retail sector – residents with a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.2304	0.0482	***
Female	-0.1100	0.0230	***
Age	0.0773	0.0055	***
Age squared	-0.0005	0.0001	***
Other workers in the home	-0.0412	0.0179	**
Homeowner	0.1537	0.0264	***
Bachelor's degree	0.1765	0.0276	***
Graduate degree	0.1961	0.0351	***
English proficient	-0.3046	0.0591	***
Married	0.2474	0.0270	***
Hispanic	-0.0176	0.0496	
Black	-0.2455	0.0710	***
American Indian	-0.0779	0.1301	
Asian	0.0593	0.0293	**
Native Hawaiian/Pacific Islander	-0.4238	0.2013	**
Other race	0.0368	0.0597	
Constant	-3.3093	0.1418	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the wholesale trade sector – residents with a college degree

Santa Clara County residents working in the wholesale trade sector with a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a larger impact than any of the other binary independent variables.

Figure B-5.
Self-employment in the wholesale trade sector – residents with a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.2481	0.0753	***
Female	-0.1840	0.0389	***
Age	0.0433	0.0091	***
Age squared	-0.0002	0.0001	*
Other workers in the home	-0.0091	0.0281	
Homeowner	0.1654	0.0433	***
Bachelor's degree	0.1372	0.0446	***
Graduate degree	0.1143	0.0566	**
English proficient	-0.2073	0.0834	**
Married	0.0243	0.0431	
Hispanic	-0.1830	0.0890	**
Black	-0.1599	0.1244	
American Indian	-0.1046	0.2047	
Asian	0.0861	0.0419	**
Native Hawaiian/Pacific Islander	0.1507	0.2898	
Other race	-0.0750	0.1101	
Constant	-2.5627	0.2298	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the arts and entertainment sector – residents without a college degree

Santa Clara County residents working in the arts and entertainment sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 95 percent confidence level. The impact of Santa Clara County residence was similar to gender or having other workers in the home.

Figure B-6.
Self-employment in the arts and entertainment sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1870	0.0877	**
Female	-0.1903	0.0312	***
Age	0.0804	0.0052	***
Age squared	-0.0007	0.0001	***
Other workers in the home	-0.2169	0.0226	***
Homeowner	-0.0088	0.0338	
High school diploma	0.1334	0.0485	***
Some college	0.3315	0.0440	***
English proficient	-0.0144	0.0728	
Married	0.0768	0.0348	**
Hispanic	-0.3108	0.0545	***
Black	-0.0952	0.0610	
American Indian	-0.2681	0.0895	***
Asian	-0.4069	0.0644	***
Native Hawaiian/Pacific Islander	-0.0446	0.3040	
Other race	-0.0401	0.0636	
Constant	-2.8177	0.1293	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the manufacturing sector – residents with a college degree

Santa Clara County residents working in the manufacturing sector with a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a larger impact than all of the binary independent variables except the Black variable.

Figure B-7.
Self-employment in the manufacturing – residents with a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.5095	0.0409	***
Female	-0.0253	0.0276	
Age	0.0147	0.0065	**
Age squared	0.0000	0.0001	
Other workers in the home	-0.0002	0.0194	
Homeowner	0.0818	0.0320	**
Bachelor's degree	-0.0420	0.0311	
Graduate degree	-0.1061	0.0365	***
English proficient	-0.3712	0.0638	***
Married	0.0226	0.0308	
Hispanic	-0.2110	0.0578	***
Black	-0.6160	0.0988	***
American Indian	-0.1598	0.1600	
Asian	-0.2310	0.0327	***
Native Hawaiian/Pacific Islander	-0.2544	0.2881	
Other race	-0.0200	0.0700	
Constant	-1.8935	0.1702	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the information sector – residents without a college degree

Santa Clara County residents working in the information sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 95 percent confidence level and had a larger impact than most of the non-race/ethnicity independent variables.

Figure B-8.
Self-employment in the information sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1836	0.0921	**
Female	-0.1699	0.0352	***
Age	0.0170	0.0059	***
Age squared	-0.0001	0.0001	
Other workers in the home	-0.0816	0.0251	***
Homeowner	-0.0139	0.0386	
High school diploma	-0.0522	0.0636	
Some college	0.0574	0.0580	
English proficient	-0.0147	0.1078	
Married	0.0628	0.0387	
Hispanic	-0.3667	0.0658	***
Black	-0.4045	0.0758	***
American Indian	0.0715	0.1217	
Asian	-0.2335	0.0691	***
Native Hawaiian/Pacific Islander	-0.2448	0.2256	
Other race	0.0123	0.0761	
Constant	-1.9489	0.1643	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the manufacturing sector – residents without a college degree

Santa Clara County residents working in the manufacturing sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a larger impact than non-race/ethnicity variables.

Figure B-9.
Self-employment in the manufacturing sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.2496	0.0396	***
Female	-0.1001	0.0188	***
Age	0.0031	0.0034	
Age squared	0.0001	0.0000	***
Other workers in the home	-0.0400	0.0123	***
Homeowner	0.1567	0.0198	***
High school diploma	0.0573	0.0252	**
Some college	0.1280	0.0253	***
English proficient	0.0743	0.0283	***
Married	0.1791	0.0203	***
Hispanic	-0.4284	0.0299	***
Black	-0.5129	0.0577	***
American Indian	-0.1598	0.0741	**
Asian	-0.2284	0.0295	***
Native Hawaiian/Pacific Islander	-0.4470	0.1665	***
Other race	0.0412	0.0294	
Constant	-2.1618	0.0820	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the “other” sector – residents without a college degree

Santa Clara County residents working in the “other” sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level with an impact comparable to homeownership.

Figure B-10.
Self-employment in the other sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1591	0.0422	***
Female	0.2979	0.0153	***
Age	0.0671	0.0028	***
Age squared	-0.0006	0.0000	***
Other workers in the home	-0.0680	0.0106	***
Homeowner	0.1915	0.0163	***
High school diploma	0.0016	0.0200	
Some college	-0.0638	0.0207	***
English proficient	-0.0221	0.0225	
Married	0.0833	0.0166	***
Hispanic	-0.0759	0.0231	***
Black	-0.1916	0.0357	***
American Indian	-0.1001	0.0557	*
Asian	-0.0995	0.0279	***
Native Hawaiian/Pacific Islander	-0.2455	0.1139	**
Other race	-0.0243	0.0229	**
Constant	-2.3910	0.0663	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the professional, scientific and technical services sector – residents without a college degree

Santa Clara County residents working in the professional, scientific and technical services sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a smaller impact than gender, some college, and the Black, Hispanic, Asian and Native Hawaiian/Pacific Islander race or ethnicity variables. The impact of Santa Clara County residence was greater in magnitude than all other binary independent variables.

Figure B-11.
Self-employment in the professional, scientific and technical services sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1559	0.0526	***
Female	-0.3438	0.0236	***
Age	0.0388	0.0044	***
Age squared	-0.0002	0.0000	***
Other workers in the home	-0.0551	0.0180	***
Homeowner	0.0858	0.0266	***
High school diploma	0.0429	0.0484	
Some college	0.2218	0.0445	***
English proficient	-0.0241	0.0701	
Married	0.1235	0.0262	***
Hispanic	-0.2418	0.0447	***
Black	-0.3509	0.0609	***
American Indian	0.0662	0.0918	
Asian	-0.2958	0.0474	***
Native Hawaiian/Pacific Islander	-0.5497	0.2080	***
Other race	-0.0226	0.0546	
Constant	-2.1986	0.1219	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the retail sector – residents without a college degree

Santa Clara County residents working in the retail sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a smaller impact than English proficiency, marital status, and the Black, Asian and Native Hawaiian/Pacific Islander variables.

Figure B-12.
Self-employment in the retail sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1794	0.0396	***
Female	-0.1923	0.0149	***
Age	0.0618	0.0027	***
Age squared	-0.0004	0.0000	***
Other workers in the home	-0.0667	0.0107	***
Homeowner	0.1459	0.0165	***
High school diploma	-0.1273	0.0209	***
Some college	-0.0130	0.0202	
English proficient	-0.2911	0.0266	***
Married	0.2941	0.0168	***
Hispanic	-0.1086	0.0240	***
Black	-0.2662	0.0420	***
American Indian	-0.1589	0.0578	***
Asian	0.2176	0.0242	***
Native Hawaiian/Pacific Islander	-0.2394	0.1189	**
Other race	0.0565	0.0265	**
Constant	-2.8750	0.0649	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

Self-employment in the administrative support, waste management and remediation services sector – residents without a college degree

Santa Clara County residents working in the administrative support, waste management and remediation services sector without a college degree were less likely to be self-employed than residents of other parts of California. This coefficient was statistically significant at the 99 percent confidence level and had a smaller impact than gender, homeownership, marital status, and the Black, Hispanic, and Native Hawaiian/Pacific Islander race/ethnicity variables.

Figure B-13.
Self-employment in the administrative support, waste management and remediation services sector – residents without a college degree

Independent Variable	Coefficient	Standard Error	Statistical Significance
Santa Clara County Resident	-0.1153	0.0404	***
Female	-0.2694	0.0173	***
Age	0.0508	0.0031	***
Age squared	-0.0004	0.0000	***
Other workers in the home	-0.0579	0.0111	***
Homeowner	0.2256	0.0174	***
High school diploma	-0.0984	0.0220	***
Some college	-0.0423	0.0226	*
English proficient	0.0226	0.0236	
Married	0.2125	0.0175	***
Hispanic	-0.1284	0.0251	***
Black	-0.5504	0.0360	***
American Indian	-0.1404	0.0569	**
Asian	-0.1060	0.0335	***
Native Hawaiian/Pacific Islander	-0.1280	0.1109	
Other race	-0.0315	0.0234	
Constant	-2.1955	0.0718	***

Note: The dependent variable is the probability of being self-employed.
Coefficients represent the change in the cumulative normal probability of self-employment for one unit change in the independent variable.
*** statistically significant at a 99% confidence level
** statistically significant at a 95% confidence level
* statistically significant at a 90% confidence level

Source: BBC Research & Consulting from 2000 U.S. Census Public-Use Micro Sample Data.

APPENDIX C.

The Prevalence of Entrepreneurship in Santa Clara County

Background

Two branches of literature attempt to quantify the amount of entrepreneurial activity occurring in a nation. Each branch employs a similar, although not identical, methodology.¹ One must be careful not to compare too literally the numbers from different studies, and telephone surveys by their nature will not perfectly measure any characteristic of a population.

- The Global Entrepreneurship Monitor (GEM) measures levels of entrepreneurship in countries around the world. One function of the GEM is to measure the rates of entrepreneurship in countries that have fundamentally different economies, and to measure how a country's macroeconomic conditions affect entrepreneurship in that country.
- The Panel Study of Entrepreneurial Dynamics (PSED) measures entrepreneurship only within the United States. The PSED compares levels of entrepreneurship across various demographic variables. Authors of the PSED have also studied regions within the United States; most recently, the authors investigated entrepreneurship in Southern Florida.

Approach to Santa Clara County Survey

These two groups of studies provide an approach to researching entrepreneurial activity in Santa Clara County. The telephone survey methodology is well established. BBC retained the same telephone survey firm, Opinion Research Corporation, that performed the most recent entrepreneurial studies in the United States. The questions asked in the telephone survey were developed over the course of multiple research waves. BBC employed the same sequence of survey questions, with some minor additions and deletions. In total, Opinion Research Corporation surveyed 602 adults within Santa Clara County. To gain an even more relevant comparison data set, Opinion Research conducted approximately 400 surveys in California (outside Santa Clara County).

¹ For example, the definition of the total entrepreneurial index has changed over time. Older GEM studies report the number of individuals starting a business per 100 individuals aged 18 to 64. Previous PSED studies measured prevalence rates among individuals aged over 18. Recent PSED studies, those most applicable to BBC's survey data, measure the rate per 100 individuals aged 18 to 74.

Households were selected via random digit dialed (RDD) procedures; surveyors interviewed the first individual over the age of 18 willing to participate in the survey. Surveyors utilized computer assisted telephone interview (CATI) technology. Measures were taken to ensure that survey respondents are divided evenly among males and females. The majority of surveys were completed in English; however, a few surveys were completed in Spanish or a mix of Spanish and English. The survey team also had the ability to complete interviews in Vietnamese, although no surveys were completed in this language. Households were called up to three times in an attempt to obtain an interview (also the standard in the comparable studies of entrepreneurship). BBC weighted respondent data to represent the population of their respective location, either Santa Clara County or “other California.” BBC utilized data on age and ethnicity for data weighting purposes. Weighting data were annual 2003 data from the California Department of Finance, the most recent year available at the time of the survey.

Rates of Entrepreneurship

Based on this telephone survey, BBC estimates that 8 percent of Santa Clara County residents ages 18 to 74, or approximately 95,000 individuals, are actively involved in some entrepreneurial activity, either currently starting a business or owning and managing a firm younger than 4 years of age. Among California residents residing outside of Santa Clara County, about 9 percent of individuals ages 18 to 74 are actively engaged in an entrepreneurial activity. In Florida, the rate is 12 percent.² The entrepreneurial activity rate for Santa Clara County is not significantly different from the rate in California.

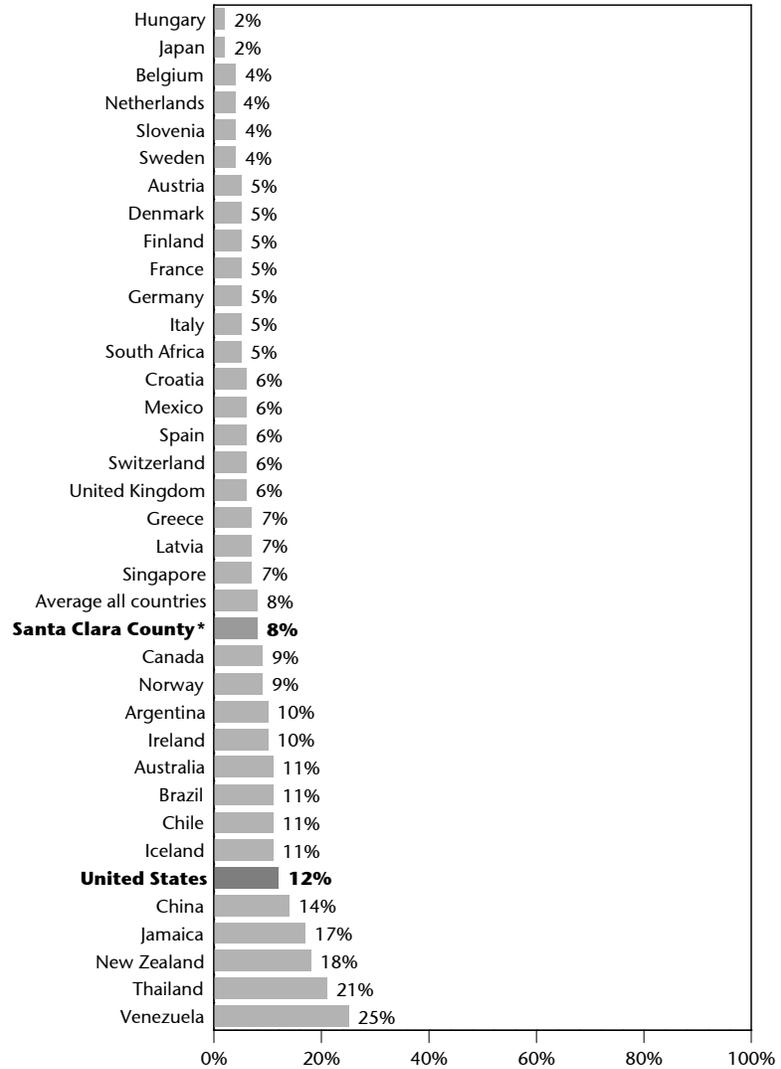
Exhibit C-1 shows the total entrepreneurial activity (TEA) index, as measured by the Global Entrepreneurship Monitor in 2005, for several countries around the world. In 2005, the GEM measured the TEA index in the United States as 12 percent of the population aged 18 to 64 (a slightly different age group than discussed above for Santa Clara County, California and Florida). Among all countries surveyed by the GEM in 2005, Japan and Hungary had the lowest amount of entrepreneurial activity (2 percent of adults), while Venezuela had the most (25 percent of adults).

² Reynolds, Paul D. 2005. “South Florida Entrepreneurship: 2004 Assessment.” A report completed for the Eugenio Pino and Family Global Entrepreneurship Center; Florida International University, Miami, Florida.

Figure C-1.
Prevalence of
entrepreneurship in the
U.S. and other countries

* From BBC telephone survey data, April 2006. This percentage was calculated among the Santa Clara County population ages 18 to 64, while other references to Santa Clara County entrepreneurship in this appendix report the proportion among the population ages 18 to 74.

Source:
Minniti, Maria et al. 2006. "Global Entrepreneurship Monitor 2005 Executive Summary. Produced by the Global Entrepreneurship Monitor; Babson College and the London Business School.



It is important to note that these estimates of entrepreneurial activity are based on sample data. At the 95 percent confidence level, the confidence interval around the estimate for Santa Clara County entrepreneurial activity exceeds plus or minus 2 percentage points. Estimates also change from year to year. The TEA index for the United States has been measured as high as 17 percent (2000) and as low as 10 percent (2002) of the adult population between the years of 2000 and 2005. It is not clear whether the rate of entrepreneurial activity in Santa Clara County is really lower than the U.S. as a whole.

What is a Nascent Entrepreneur?

Consistent with previous research in the field, there are two broad ways that an individual can be categorized as a nascent entrepreneur in this study: individuals can be either actively involved in starting a new business, or own a new business. To be considered actively involved in starting a new business, survey respondents needed to respond “yes” to either of the following questions:

- Are you, alone or with others, now trying to start a new business?; or
- Are you, alone or with others, now trying to start a new business or new venture for your employer? This can be an effort that is part of your job assignment.

To be considered a nascent entrepreneur, respondents must have actively done something to help start this new business, such as looking for equipment or a location or organizing a start-up team, within the past 12 months. Respondents must be at least part owner of the business venture, and the company cannot have had a positive cash flow for more than 42 months.

To be considered an owner-operator of a new business, the respondent would need to have answered “yes” to the following question:

- Do you, alone or with others, own an established business? This business would be up and running, not a start-up.

Again, in order to be considered a nascent entrepreneur, the respondent would need to be at least part owner of the business venture. Businesses must be less than 4 years of age.

If an individual could be considered both involved in starting a new business and owning a new business (separate from the start-up), they were counted only once as a nascent entrepreneur. The prevalence rates of entrepreneurship listed in the remainder of this report can be interpreted as the number of individuals who are either actively starting a business or own a new business per 100 individuals aged 18 to 74.

Entrepreneurs in Santa Clara County and California

BBC estimates that more than 95,000 individuals in Santa Clara County, or 8 percent of the individuals ages 18 to 74, are currently starting a business or own and operate a business that is younger than 4 years. This level of entrepreneurship is about the same as seen in the rest of California—BBC estimates that 9 percent of Californians ages 18 to 74 are currently involved in an entrepreneurial activity. The differences between the rate of entrepreneurship in Santa Clara County and the rest of California are not statistically significant.

The percentage of the adult population who own a business older than four years of age is lower in Santa Clara County than the rest of California. In Santa Clara County, 4 percent of adults currently own an “older” business compared with 9 percent of Californians. This difference is statistically significant.

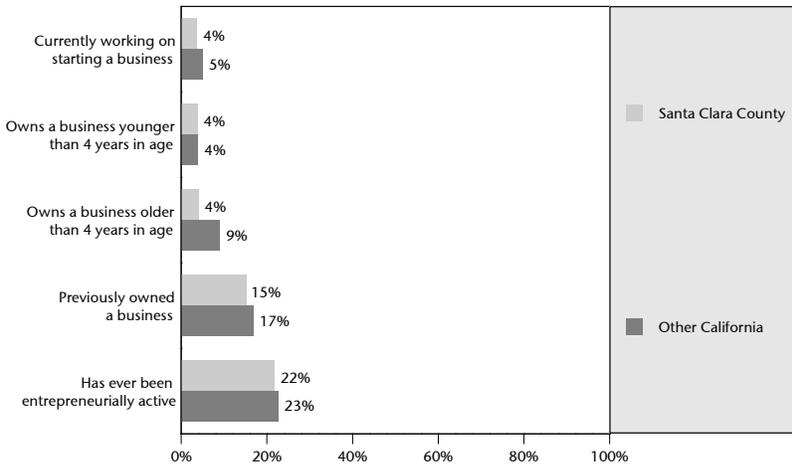
As can be seen in Figure C-2, BBC estimates that 15 percent of the residents aged 18 to 74 residing in Santa Clara County, and 18 percent of residents in the rest of California, have previously owned a business. Among Santa Clara County residents, 60 percent of previous businesses were located in Santa Clara County, and 30 percent were located somewhere else in California.

When asked why they no longer own this business, one-third of respondents indicated that their business had failed. Twenty-five percent of respondents indicated that they were retired, and another 25 percent indicated that they had sold ownership of the business for some other reason.

Figure C-2.
Prevalence of entrepreneurial activities in Santa Clara County and California

Note:
n = 602 for Santa Clara County.
n = 403 for other California.

Source:
BBC Research & Consulting from California telephone survey, April 2006.



Entrepreneurship for men and women. In Santa Clara County, men are approximately 50 percent more likely to be entrepreneurially active than are women. Among other Californians, there is less of a difference in levels of entrepreneurship between men and women. In both Santa Clara County and the rest of California, the entrepreneurship rate among men was approximately 9 percent. Nine percent of women in the rest of California were entrepreneurially active, compared to only 6 percent of the women in Santa Clara County (this difference is not statistically significant).

Entrepreneurship by age. Nationally, most entrepreneurial activity occurs among individuals ages 25 to 54. Twelve to 14 percent of people ages 35 to 54 are entrepreneurially active in Santa Clara County and the rest of California.

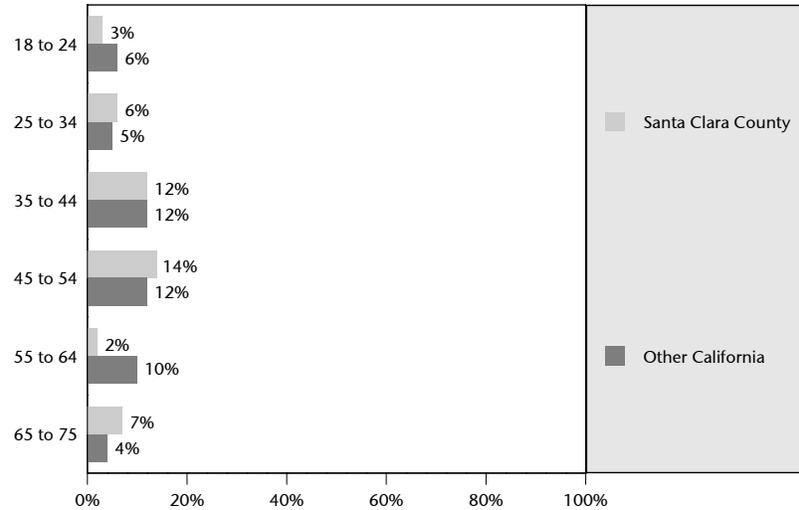
Figure C-3.
Prevalence of entrepreneurial activity by age

Note:

n ranges between 32 and 130 for age categories in Santa Clara county.
n ranges between 25 and 71 for age categories in other California.

Source:

BBC Research & Consulting from California telephone survey, April 2006.



Entrepreneurship by education. Nationally, the prevalence rate of entrepreneurial activity increases as does the level of education. The trend of higher educated individuals being more likely to be entrepreneurially active is also true in Santa Clara County. About 10 percent of individuals with training at the graduate level in Santa Clara County are entrepreneurially active, compared to only 4 percent of individuals with only a high school degree.

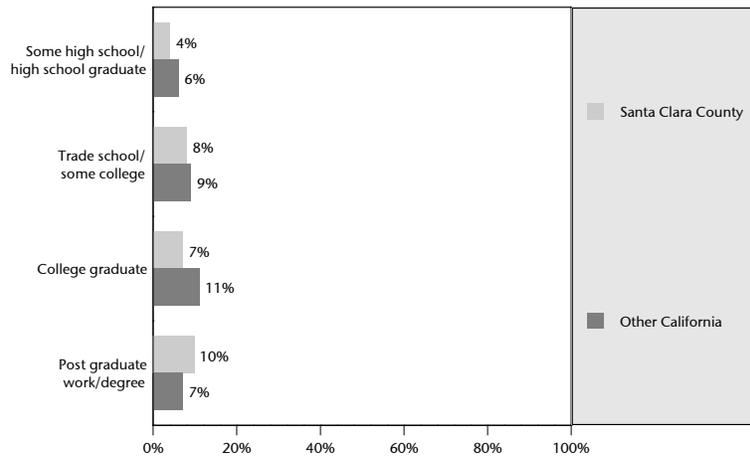
Figure C-4.
Prevalence of entrepreneurial activity by level of education

Note:

n ranges between 82 and 204 for level of education categories in Santa Clara county.
n ranges between 68 and 116 for level of education categories in other California.

Source:

BBC Research & Consulting from California telephone survey, April 2006.



Entrepreneurship by ethnicity. Although the proportion of employed people who currently own businesses in Santa Clara County is generally lower for minorities (see regression analyses in Appendix B), about the same proportion of non-Hispanic whites and minorities are entrepreneurially active. There are no statistically significant differences in rates of entrepreneurial activity for these groups between Santa Clara County and the balance of California.

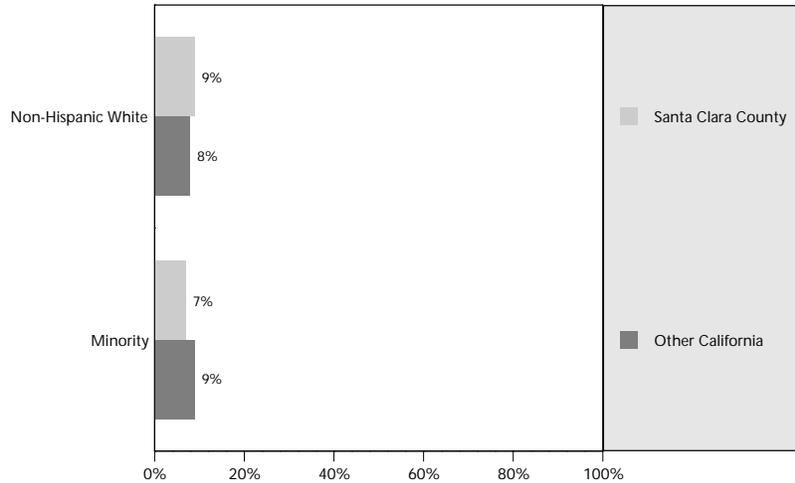
Figure C-5.
Prevalence of
entrepreneurship
by ethnicity

Note:

n = 357 for non-Hispanic whites in Santa Clara County.
n = 214 for minorities in Santa Clara County.
n = 257 for non-Hispanic whites in other California.
n = 121 for minorities in other California.

Source:

BBC Research & Consulting from California telephone survey, April 2006.



Other Results for Entrepreneurs in Santa Clara County

Answers to survey questions asked only of entrepreneurs must be interpreted with caution due to the small number of entrepreneurs identified in the surveys. The number of responses were about 20 and 30 for California and Santa Clara County, respectively.

Education. Entrepreneurs in the Silicon Valley are highly educated when compared to entrepreneurs in the nation. Nearly 40 percent of interviewed entrepreneurs in the Silicon Valley have received at least some graduate-level training, compared to only 10 percent of entrepreneurs nationally. Fewer than 10 percent of the entrepreneurs in Santa Clara County had only a high school education. While Santa Clara County is relatively more educated than other parts of the country, this does not fully explain the proportion of highly educated entrepreneurs in the area.

Household income. According to national data from the Panel Study of Entrepreneurial Dynamics, 40 percent of nascent entrepreneurs in the U.S. have an annual income of less than \$40,000 per year while actively starting their new business, and only approximately 15 percent earn more than \$100,000 per year.

Entrepreneurs in the Silicon Valley tend to have higher levels of annual household income than entrepreneurs nationally. Among interviewed entrepreneurs residing in Santa Clara County, fewer than 20 percent indicated that they have an annual income of less than \$40,000 per year and more than half the entrepreneurs indicated that their annual income was at least \$100,000 per year.

Labor force participation. Most people who are entrepreneurially active in Santa Clara County, California or the United States are employed. The rate of entrepreneurship among people who are not employed is lower than employed people.

Home ownership. Individuals who own their home in Santa Clara County are no more likely to be involved in an entrepreneurial activity than those who rent their dwelling.

Motivation for becoming an entrepreneur. Most entrepreneurs indicated that they had started or owned a new business because they were taking advantage of a business opportunity. More than one-half of entrepreneurs in both the Silicon Valley and the rest of California indicated that they

were an entrepreneur in order to “take advantage of a business opportunity.” Some of the respondents indicated that they were involved in their entrepreneurial activity because they had no better opportunities. Approximately one entrepreneur in ten was involved in the entrepreneurial activity because he or she had “no better choices for work,” and an additional 10 percent indicated that they were entrepreneurial as a “combination of both” taking advantage of an opportunity and not having better options for employment. The proportion of entrepreneurs in Santa Clara County and California who are pursuing entrepreneurial activities out of necessity is the about the same as the proportion seen nationally (14 percent).³

Surveyed entrepreneurs in the Silicon Valley who were relatively less educated were no more likely to be involved in an entrepreneurial activity out of necessity than more educated individuals. Similarly, minority entrepreneurs in the Silicon Valley were no more likely to be entrepreneurially active out of necessity than white entrepreneurs.

Business ownership. According to national data from the Panel Study of Entrepreneurial Dynamics, 60 percent of all new small businesses in the United States are owned by a single owner. The proportion of sole proprietorships in California (outside of Santa Clara County) resembles this national trend—68 percent of surveyed entrepreneurs residing in the rest of California indicated that they were the sole owner of their new business. However, fewer than 50 percent of surveyed entrepreneurs in Santa Clara County indicated that they would be the sole owner of their business.

Among the entrepreneurs who will own their business along with another individual, one-third of surveyed entrepreneurs in Santa Clara County indicated that their business partner was a family member. One-quarter of respondents residing in the rest of California said the same.

Business type. Most nascent entrepreneurs in Santa Clara County and the rest of California are starting businesses that are service-oriented. About 10 percent of San José metro area nascent entrepreneurs indicated that their business was retail-oriented.

The majority of businesses that are currently being started in the Silicon Valley are independent start-ups, as opposed to a franchise or a business that is supported by a larger, existing business. Nearly 75 percent of the entrepreneurs surveyed in Santa Clara County indicated that their new business was a start-up, while 15 percent indicated that they were either purchasing an existing business or starting a business sponsored by a larger company (surveyed individuals had to be at least part-owners to be considered an entrepreneur).

Problems when starting a business. Most entrepreneurs indicated that they had not had any “major problems” when starting their business. However, one-third of interviewed entrepreneurs in Santa Clara County stated that they had experienced a major problem when starting their business; 24 percent of the entrepreneurs in the rest of California said the same (this difference is not statistically significant).

³ Reynolds, Paul D. 2005. “South Florida Entrepreneurship: 2004 Assessment.” A report completed for the Eugenio Pino and Family Global Entrepreneurship Center; Florida International University, Miami, Florida.

When asked what their problems were the majority of survey respondents indicated that their problems were financial (e.g., maintaining an adequate cash flow and securing loans). Several entrepreneurs from Santa Clara County indicated that they had difficulty obtaining the proper licensing for their small businesses.

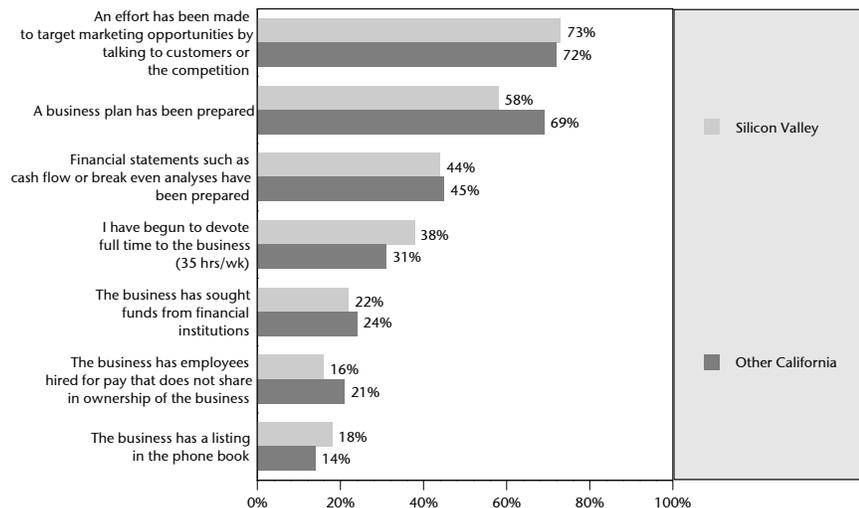
About two-thirds of surveyed entrepreneurs indicated that they had prepared a business plan, with no significant difference between entrepreneurs in the Silicon Valley and the rest of California. Business owners who prepared a business plan were no less likely to have had major problems when starting their business than were business owners who had not prepared a business plan.

How mature are new businesses in the Silicon Valley? Nascent entrepreneurs were asked a series of questions intended to measure the maturity of the individual's new business. There was little variation between new businesses in California and new businesses in Santa Clara County. Three-quarters of new businesses indicated that they had identified the target market for their new business, the first step toward producing a successful business operation. Businesses in Santa Clara County may be less likely to have prepared a business plan than businesses in the rest of California, however the difference seen in the data is not statistically significant. More nascent entrepreneurs indicated that they had prepared financial statements than entrepreneurs who had begun to work full-time on their business, which may indicate that before starting to work full-time on their business, entrepreneurs want to be particularly sure that their business will be successful. Between 15 and 20 percent of entrepreneurs indicated that their business was listed in the phone book.

Figure C-6.
Maturity of new
businesses in the
Silicon Valley and
the rest of
California

Note:
n between 44 and 46 for Santa
Clara County.
n = 29 for other California.

Source:
BBC Research & Consulting from
telephone survey, April 2006.



When asked where they had obtained space to operate their business, slightly more than half of surveyed nascent entrepreneurs indicated that their business operates out of their home.

Entrepreneurship Aspirations and Perceptions of the Local Business Climate

Survey respondents were asked a few questions designed to gauge their aspirations for owning a business and their perceptions of the business climate in their community.

Owning a business as a personal goal. Figure C-7 shows the personal aspirations of business ownership among those individuals who have never been entrepreneurially active—the exhibit shows the proportion of individuals in Santa Clara County and other California who answered “yes” to each of the listed questions. Personal aspirations of business ownership are similar among respondents in Santa Clara County and the rest of California; among individuals who have never been entrepreneurially active, almost one-quarter stated that owning a business was a personal goal. In Santa Clara County, approximately 39 percent of residents aged 18 to 74 have “thought about owning a business,” compared to only one-third of the residents in the rest of California.

These proportions imply that approximately 366,000 individuals in Santa Clara County have “thought about” owning or starting a business, while owning a business is a personal goal for about 220,000 Santa Clara County residents. Together, about 415,000 Santa Clara County residents have either thought about owning a business or have owning a business as a personal goal, or both.

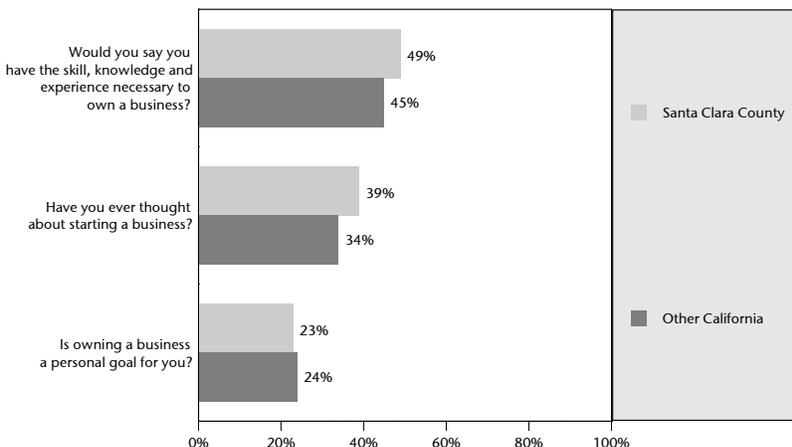
When asked if they have the “skill, knowledge and experience” required to start a business, half of all residents in Santa Clara County responded that they do possess the required skills, as did half the residents of California outside Santa Clara County. Individuals between the ages of 35 and 54 are by far the most likely to indicate they have the skill, knowledge and experience—nearly two-thirds of the respondents indicated that they have the requisite skills.

Minorities were slightly more likely than non-Hispanic whites to indicate that they possess the skills, knowledge and experience required to start a business.

Figure C-7.
Personal aspirations of business ownership

Note:
The proportion shown at right lists the proportion of individuals who answered “yes” to the question.
n = 399 for Santa Clara county.
n = 227 for other California.

Source:
BBC Research & Consulting from telephone survey, April 2006.



Survey respondents who had not started a business cited a wide range of reasons for not having done so. Most frequently (30 percent), individuals responded that financial constraints have kept them from opening a business. Many survey respondents indicated that they had a good job and did not feel like they needed to own a business. Others cited lifestyle choices (family, health or some other reason), lack of education or experience, and an aversion to risk.

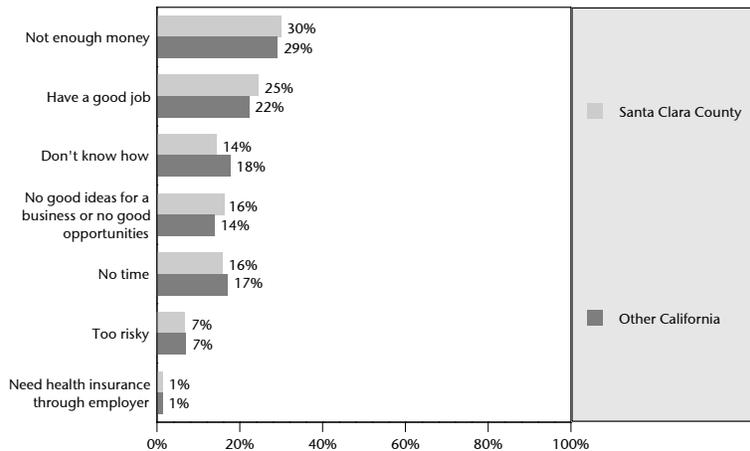
- *“I’d have to go to college to start a business.”*
- *“Health reasons.”*
- *“I’m too busy raising a family right now.”*

- *“I enjoy working for other people, I just don’t think I could boss anyone.”*
- *“I don’t want to lose everything.”*
- *“It’s just not something I’d like to do.”*

Figure C-8.
Why do you think you haven’t started or purchased your own business?

Note:
n = 278 for Santa Clara county.
n = 158 for other California.

Source:
BBC Research & Consulting from telephone survey, April 2006.

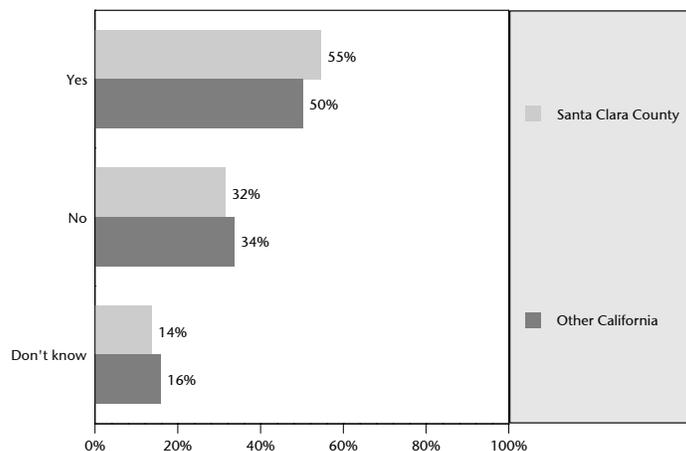


Perceptions of local business climate. All survey respondents, whether they have been entrepreneurially active or not, were asked about their perceptions of the business climate in their community. About half of all survey respondents in California indicated that they thought that owning a business was a personal goal for other individuals in their community. One-third of survey respondents indicated that they did not think others in their community had owning a business as a personal goal. The balance indicated that they did not know if others felt that owning a business was a goal.

Figure C-9.
Would you say owning a business is a personal goal for many people where you live?

Note:
n = 559 for Santa Clara county.
n = 227 for other California.

Source:
BBC Research & Consulting from telephone survey, April 2006.



Survey respondents were somewhat optimistic about the business climate in their community. Forty-four percent of the residents of Santa Clara County said that there would be “good opportunities for starting a business” in their community in the next 6 months. A comparable proportion of individuals who reside in the rest of California said the same about their community. Slightly fewer than 40 percent of the residents of both Santa Clara County and other regions in California said they did not think that there would be good opportunities for starting a business in their community.

Figure C-10.

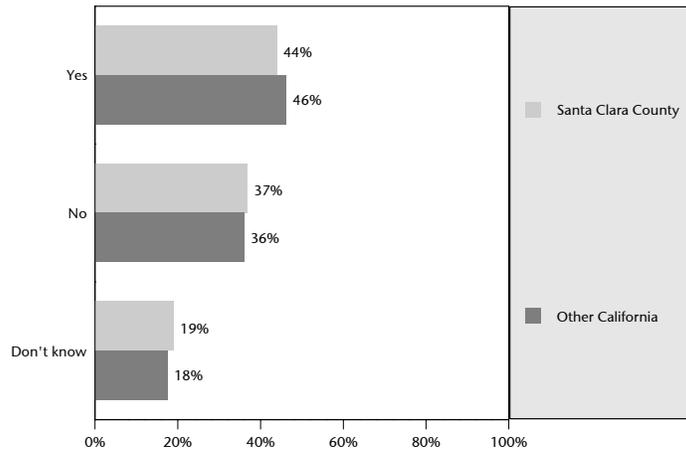
Would you say there will be good opportunities for starting a business in the area you live in the next 6 months?

Note:

n = 561 for Santa Clara county.
n = 363 for other California.

Source:

BBC Research & Consulting from telephone survey, April 2006.



Silicon Valley Entrepreneurship Survey

INTRODUCTION

Hello, my name is _____, calling from Opinion Research Corporation, an independent research firm. We are not selling anything. We are doing a survey with California residents on their opinions about owning a business. We are only asking your opinions. Your answers will remain confidential. This call may be monitored or recorded for quality assurance purposes.

[If asked, this research is to help local governments in California better understand how they can help people start a business. It is sponsored by a local city.]

Now, may I please speak to a (male/female) 18 years of age or older who lives in this household.

A. BUSINESS START-UP

QA1. Are you, alone or with others, now trying to start a new business?

- Yes
- No
- Don't know
- Refused

QA2. Are you, alone or with others, now trying to start a new business or new venture for your employer? An effort that is part of your job assignment?

- Yes
- No
- Don't know
- Refused

IF "YES" TO EITHER QA1 OR QA2, CONTINUE. OTHERWISE SKIP TO QB1.

QA3. Will you own all, part, or none of this new business?

- All [SKIP TO A-5]
- Part
- Other _____
- None
- Don't know
- Refused

QA4. Who else will own this new business? [CHECK ALL THAT APPLY]

- Your spouse or significant other
- Other family members
- Other people or businesses
- Don't know
- Refused

QA5. What kind of business are you starting? [PROBE: WHAT WILL IT BE SELLING? HOW WOULD IT BE LISTED IN THE YELLOW PAGES?]

QA6. Would you describe this business as [READ, CHECK ONE]

- An independent start-up, created by an individual or team working on their own
- A purchase or takeover of an existing business
- A franchise or multi-level marketing initiative
- A start-up sponsored by an existing business
- Something else (specify)
- Don't know
- Refused

QA7. In the past 12 months, have you done anything to help start this new business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, beginning to save money, or any other activity that would help launch a new business?

- Yes
- No
- Don't know
- Refused

QA8. Have you had any major problems in starting this business?

- Yes
- No [SKIP TO A-10]
- Don't know [SKIP TO A-10]
- Refused [SKIP TO A-10]

QA9. What are those problems? [Prove fully for specifics]

QA10. Let me ask you about some of the start-up activities ... Has a business plan been prepared?

- Yes
- No
- Don't know
- Refused

QA11. Has an effort been made to define the market opportunities by talking with potential customers or getting information about the competition?

- Yes
- No
- Don't know
- Refused

QA12. Have project financial statements, such as income and cash flow statements or a break-even analysis, been developed?

- Yes
- No
- Don't know
- Refused

QA13. Has anyone asked financial institutions or other people for funds?

- Yes
- No
- Don't know
- Refused

QA14. Have you begun to devote full time to the business, that is, 35 or more hours per week?

- Yes
- No
- Don't know
- Refused

QA15. Have any employers or managers been hired for pay, that is, workers who would NOT share ownership?

- Yes
- No
- Don't know
- Refused

QA16. Where have you obtained space to operate this business?

- Home [SKIP TO A-18]
- Non-home space
- Don't know [SKIP TO A-18]
- Refused [SKIP TO A-18]

QA17. Where? [What town?]

QA18. Does the new business have its own listing in the phone book?

- Yes
- No
- Don't know
- Refused

QA19. Would you say that you have the knowledge, skill and experience required to start a new business?

- Yes
- No
- Don't know
- Refused

QA20. What key knowledge, skill or experience for starting a business are you lacking? [Probe fully for specifics]

QA21. Have you taken any classes or workshops on starting a business?

- Yes
- No [SKIP TO A-23]
- Don't know [SKIP TO A-23]
- Refused [SKIP TO A-23]

QA22. Please name all the places where you took classes or workshops on starting a business tell us what type of training you received.

QA23. What training or other resources would you recommend to someone who is starting a business?

QA24. Has the new business received any money, income, or fees from the sale of goods or services?

- Yes
- No [SKIP TO A-27]
- Don't know [SKIP TO A-27]
- Refused [SKIP TO A-27]

QA25. Has the start-up had a positive monthly cash flow that covers expenses and the owner-manager salaries?

- Yes
- No [SKIP TO A-27]
- Don't know [SKIP TO A-27]
- Refused [SKIP TO A-27]

QA 26. For about how long?

- Less than 3 months
- 3-6 months
- 7-12 months
- More than a year but less than 3 ½ years
- Don't know
- Refused

QA27. Are you involved in this start-up to take advantage of a business opportunity or because you have no better choices for work? [CHECK ONE]

- Take advantage of business opportunity
- No better choices for work
- Combination of both
- Have a job but seek better opportunities
- Other _____
- Don't know
- Refused

QA28. Do you, alone or with others, own an established business? [in addition to the start-up business, if applicable] This business would be up and running, not a start-up.

- Yes
- No [SKIP TO C-1]
- Don't know [SKIP TO C-1]
- Refused [SKIP TO C-1]

QA29. Do you own all, part, or none of this business? [CHECK ONE]

- All [SKIP TO B-4]
- Part
- Other _____
- None [SKIP TO C-1]
- Don't know
- Refused

QA30. Who else owns this business ? [CHECK ALL THAT APPLY]

- Your spouse
- Other family members
- Other people or businesses

QA31. What kind of business is it? [PROBE: WHAT WILL IT BE SELLING?
HOW WOULD IT BE LISTED IN THE YELLOW PAGES?]
[OPEN-ENDED]

QA32. How long have you owned this business? [READ, CHECK ONE]

- Less than one year
- One year to 4 years
- 5-9 years
- 10+ years
- Don't know
- Refused

QA33. Did you help start this business or did you purchase ownership in an existing business? [CHECK ONE]

- Helped to start it
- Purchased ownership in an existing business [SKIP TO B-9]
- Other _____ [SKIP TO B-9]
- Don't know [SKIP TO B-9]
- Refused [SKIP TO B-9]

QA34. Did you had any major problems in starting this business?

- Yes
- No [SKIP TO B-9]
- Don't know [SKIP TO B-9]
- Refused [SKIP TO B-9]

QA35. What were they? [OPENED ENDED FOR PRE-TEST]

QA36. Has this business had a positive monthly cash flow that covers expenses and the owner-manager salaries?

- Yes
- No
- Don't know
- Refused

SKIP TO E-1

B. ESTABLISHED BUSINESSES

QB1. Do you, alone or with others, own an established business? [in addition to the start-up business, if applicable] This business would be up and running, not a start-up.

- Yes
- No [SKIP TO C-1]
- Don't know [SKIP TO C-1]
- Refused [SKIP TO C-1]

QB2. Do you own all, part, or none of this business? [CHECK ONE]

- All [SKIP TO B-4]
- Part
- Other _____
- None [SKIP TO C-1]
- Don't know
- Refused

QB3. Who else owns this business ? [CHECK ALL THAT APPLY]

- Your spouse
- Other family members
- Other people or businesses

QB4. What kind of business is it? [PROBE: WHAT WILL IT BE SELLING?
HOW WOULD IT BE LISTED IN THE YELLOW PAGES?]
[OPEN-ENDED]

QB5. How long have you owned this business? [READ]

- Less than one year
- One year to 4 years
- 5-9 years
- 10+ years
- Don't know
- Refused

QB6. Did you help start this business or did you purchase ownership in an existing business? [CHECK ONE]

- Helped to start it
- Purchased existing business [SKIP TO B-9]
- Other _____ [SKIP TO B-9]
- Don't know [SKIP TO B-9]
- Refused [SKIP TO B-9]

QB7. Did you had any major problems in starting this business?

- Yes
- No [SKIP TO B-9]
- Don't know [SKIP TO B-9]
- Refused [SKIP TO B-9]

QB8. What were they? [OPENED ENDED FOR PRE-TEST]

QB9. Has this business had a positive monthly cash flow that covers expenses and the owner-manager salaries?

- Yes
- No
- Don't know
- Refused

SKIP TO E-1

C. PAST OWNERSHIP

QC1. Have you, alone or with others, ever owned a business?

- Yes
- No [SKIP TO D-1]
- Don't know [SKIP TO D-1]
- Refused [SKIP TO D-1]

QC2. How long ago? [CHECK ONE]

- Less than one year ago
- One year to 4 years ago
- 5-9 years ago
- 10+ years ago
- Don't know
- Refused

QC3. Where was this business?

[town, or state if not California, or country if not U.S.]

- Town or state or country _____
- Don't know
- Refused

QC4. Why do you no longer own this business? [CHECK ALL THAT APPLY]

- Business closed
- Sold business or ownership in business
- Retired
- Other _____
- Don't know
- Refused

SKIP TO E-1

D. INTENTION TO OWN A BUSINESS

QD1. Have you ever thought about starting a business?

- Yes
- No
- Don't know
- Refused

QD2. Is owning a business a personal goal for you?

- Yes
- No
- Don't know
- Refused

QD3. Why do you think you haven't started or purchased a business?

[DO NOT READ, CHECK ALL THAT APPLY]

- No time
- Have a good job
- Don't know how
- Not enough money
- No good ideas for a business, no good opportunities
- Too risky
- Need health insurance through employer
- Other1 _____
- Other2 _____
- Refused

QD4. Would you say that you have the knowledge, skill and experience required to start a new business?

- Yes
- No
- Don't know
- Refused

E. COMMUNITY ATTITUDES

QE1. Would you say that owning your own business is a goal for many people where you live?

- Yes
- No
- Don't know
- Refused

QE2. Would you say that in the next six months there will be good opportunities for starting a business in the area where you live?

- Yes
- No
- Don't know
- Refused

F. DEMOGRAPHICS

We are almost finished; I have just a few questions that are for classification purposes.

QF1. Are you currently employed?

[if business owner, by an employer other than your own business]

- Yes
- No [SKIP TO F-3]
- Other _____
- Refused [SKIP TO F-3]

QF2. Do you currently work an average of 35 or more hours per week?

- Yes
- No
- Other _____
- Refused

QF3. Do you currently own or rent your home?

- Own
- Rent
- Other _____
- Don't know
- Refused

QF4. Are you currently married?

- Yes
- No
- Other _____
- Refused

QF5. Do you have children under 18 living at home?

- Yes
- No
- Don't know
- Refused

QF6. What year were you born? _____

QF7. Were you born in the United States?

- Yes
- No
- Don't know
- Refused

QF8. What is the highest level of education you have completed?

- Some high school or high school graduate
- Trade/vocational school or some college
- College graduate
- Post-graduate work or degree

QF9. Are you Hispanic, Latino or of Spanish origin?

- Yes
- No
- Other _____
- Refused

QF10. What would you consider to be your race or ethnic origin?

[DO NOT READ OPTIONS]

- White
- African American/black
- American Indian
- Asian/Pacific Islander
- Hispanic
- Other _____
- Refused

QF11. Just for classification purposes, did your total household income last year, from all sources and before taxes, fall at or below \$60,000 per year or above \$60,000 per year?

- At or below
- Above
- Don't know
- Refused

QF12. [IF F-11 "AT OR BELOW \$60K"] Did your total household income fall at or below \$40,000 per year or above \$40,000 per year?

- At or below
- Above
- Don't know
- Refused

QF13. [IF F-11 "ABOVE \$60K"] Did your total household income fall at or below \$100,000 per year or above \$100,000 per year?

- At or below
- Above
- Don't know
- Refused

QF14. If we invited you to participate in additional research on owning a business, would you be interested?

- Yes
- No [SKIP TO F-16]
- Other _____ [SKIP TO F-16]
- Refused [SKIP TO F-16]

QF15. Can I get your first name in case we need to contact you?

First name _____

QF16. Record gender. [DO NOT ASK]

- Male
- Female

QF17. Record language. [DO NOT ASK]

- Completed survey entirely in English
- Completed survey in mix of English and Spanish
- Completed survey entirely in Spanish
- Completed survey in mix of English and Vietnamese
- Completed survey entirely in Vietnamese

Thank you for participating.

APPENDIX D.

Chamber Surveys

Introduction

BBC worked with several ethnic chambers of commerce to complete in-depth interviews with local business owners about their experiences and difficulties in owning and operating small businesses in Silicon Valley. These interviews built on the focus group research with local small business owners conducted in Phase I of this study.

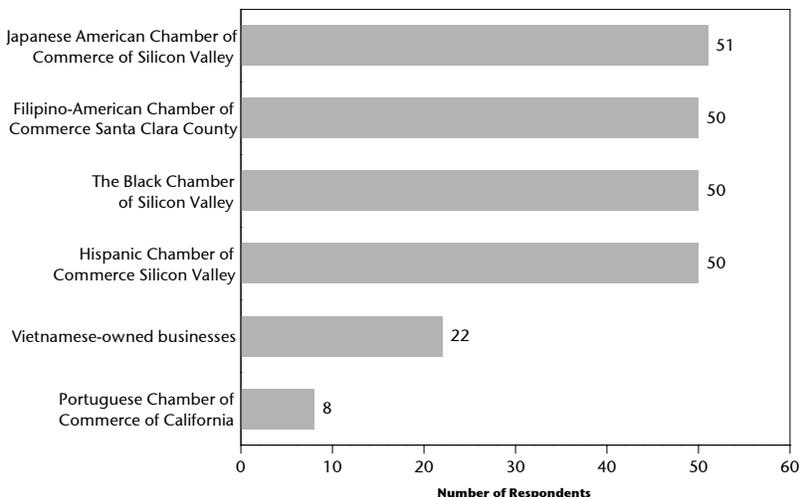
SVWIN contracted with six ethnic chambers to conduct this research. Each chamber attempted to complete up to 50 interviews with local small businesses. The following ethnic chambers participated in this research:

- Japanese American Chamber of Commerce of Silicon Valley;
- Filipino-American Chamber of Commerce Santa Clara County;
- Black Chamber of Silicon Valley;
- Hispanic Chamber of Commerce Silicon Valley;
- Vietnamese American Chamber of Commerce¹; and
- Portuguese Chamber of Commerce of California.

BBC trained interviewers, gave ongoing guidance and advice, and reviewed interview reports prepared by the chambers. Representatives of each chamber and BBC met frequently to discuss process and key findings. More than 230 interview reports were completed by the ethnic chambers.

Figure D-1.
Completed
interviews by
group

Source:
Ethnic chamber small business interviews,
spring 2006.



¹ The Vietnamese American interviews were supplemented by SVWIN.

Chamber representatives selected business owners for the interviews along the guidelines established by BBC. The interviewed firms represent a cross-section of firms within each ethnic business community. Most of the interviews completed by each chamber were with owners of the same race or ethnicity as the chamber. Both members and non-members of each chamber were interviewed. Results are generally representative of the minority business community, however firms were not randomly sampled and one cannot directly project findings to the entire population of minority-owned businesses.

Chamber representatives conducted some interviews in person and some over the phone. Interviews usually took 20 to 60 minutes to complete. BBC collaborated with representatives of the ethnic chambers in developing an interview guide. Upon completion of an interview, the chamber representative summarized the discussion in a written interview report. (A copy of the interview guide can be found in Figure D-5 at the end of this appendix.)

Interviewed businesses provide a wide range of services and products; they also differ in terms of both age and growth prospects. BBC may break down responses by business growth prospects; some business owners are preparing to retire or sell their business for some other reason, some owners wish simply to maintain their business as it is, others envision a high growth rate for their business. Other differences include hiring practices; some businesses employ owners, some employ owner's family, others employ beyond family.

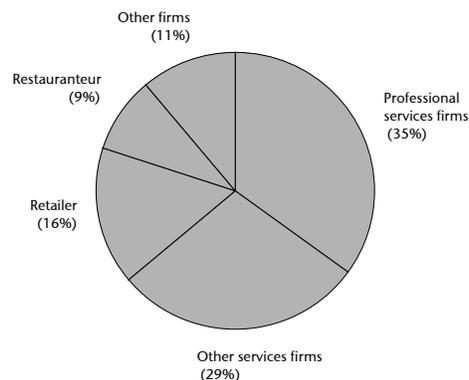
Business Demographics

Types of business activity. The business owners interviewed by the ethnic chambers primarily operate services firms. More than one-third of the firms provide professional services such as accounting, law services, interpreting services or specialized medical care. Almost one-third of the firms provide services such as hair and nail care or home care.

The remaining firms were retail stores, restaurants and specialty businesses. Retail firms interviewed by local ethnic chambers sell a wide variety of products, including African clothing, Japanese sweet cake, bagels and coffee, jewelry, movies and CD's, handcrafted furniture and fine art.

Figure D-2.
Types of firms interviewed

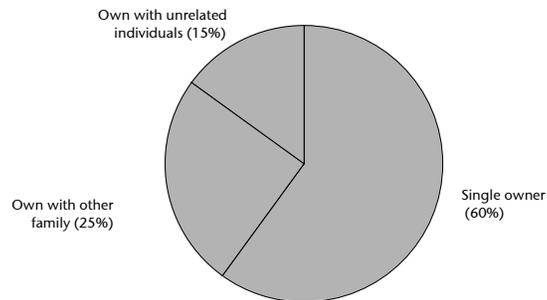
Source:
Ethnic chamber small business interviews,
spring 2006.



Ownership. The majority of business owners interviewed had complete ownership of their companies. About one business owner in four indicated that they share ownership of the business with at least one other family member, while only 15 percent of surveyed businesses were owned with another individual who was not a family member.

Figure D–3.
Firm ownership

Source:
Ethnic chamber small business interviews,
spring 2006.



Hiring employees. About two-thirds of the interviewed business owners said that their business has employees. This is not typical of small businesses, more firms have no paid employees than have an employee other than the owner or family members. However, the businesses identified for interviews by the ethnic chambers tended to have employees.

Consistent with the design of the research, most surveyed businesses were small—fewer than one in five businesses indicated that they have more than 10 employees.

Most businesses owners indicated that they did not have family members working with them inside of the firm—fewer than 40 percent of owners indicated that a family member works in the business. Many of these businesses were co-owned with a spouse or other family member.

Even when they are not counted as employees, spouses or other family members often help operate a business when the companies are very busy. Business owners that do not have employees also indicated that they hire contract labor when their workload is large, especially those in building, accounting and other service and seasonal industries.

Hiring their first employees. Many of these businesses indicated that they simply could not do all the operations of their business without the help of one or more employees. The reason most often given for hiring a first employee was: “The nature of my business is that I couldn’t do it alone.”

Many business owners indicated trepidation about hiring employees for their business, especially when hiring their first employee. The source of this anxiety often related to worries about finding employees who have the same passion for the business as the owner. As one business owner put it, “Hiring someone is hard because they will never treat your business the same way that you do.”

Despite their worry, most business owners did not consider it difficult to find and hire employees. Fewer than 7 percent of all business owners interviewed indicated that they had trouble.

The vast majority of businesses made their first hire by networking through friends or family—very few businesses indicated that they had used an employment agency when hiring an employee.

- *“Hiring my first employee wasn’t difficult, she was a good friend of mine who needed a job.”*
- *“There’s a lot of people out there, it’s not hard to find someone to do what you need them for.”*
- *“I don’t have any problems hiring workers. I think the best way is to use word of mouth—get someone that an employee or your family knows.”*
- *“There’s lots of people out there, the challenge is finding the right match.”*

Some business owners indicated that their biggest concern when hiring new employees was maintaining an adequate cash flow for their business. *“Hiring is hard for me, because our cash flow fluctuates so much.”*

Why owners started a business. Business owners cited many different reasons for deciding to start a business. Many business owners indicated that they had a desire to start a business for personal reasons, which may include a desire to spend more time with their family, a desire for an increased income, or some other personal reason, for example, to *“live a Christian life.”*

- *“It is the ambition of all Americans to start a business.”*
- *“Once I am established, I plan on this being a part-time thing so I can start a family and have time to spend with them.”*

For a few business owners, starting a business was a necessity. Several surveyed business owners indicated that they had been laid off by their previous employers and had trouble finding new work. This was true for several IT consulting firms that were started following the tech bubble. *“After the tech bubble burst, I couldn’t find any good jobs. I started the consulting firm because I knew I was good at what I did, I just had no place to do it.”*

Fewer than 6 percent of the business owners said that they started businesses because they were following a family tradition. However, several ethnic business owners found that owning a business was a good way to earn an income while assimilating to life in America. Of these businesses, many found that business practices in America are different than they were in their home country. This required a period of adjustment.

- *“When I came to this country my English was not very good, so I thought I could make money using my skills from back home, Madeira. I was a gardener there, so I started a landscape maintenance company.”*

Very few owners indicated that they had training in the field before they started their businesses. Only about one in five business owners answered that they started their business because they were trained in the field.

Typology of business owners. After examining the differences between businesses, BBC identified seven types of business owners based on stage of the business life cycle and the owners' growth aspirations.

BBC first categorized firms into "new" or "established" based on years owning the business (three years or less versus four or more). In addition, firms were classified as "maintainers" versus "growth" business based on the growth aspirations of the business owner. Business owners seeking rapid growth were divided into those with and without concrete plans as to how to achieve that growth ("planners" versus "dreamers"). "Maintainers" were divided into two sets of business owners depending on whether they had added non-family members as partners or employees.

One group of business owners stood out from the rest: people with established businesses who were looking to retire or sell their companies.

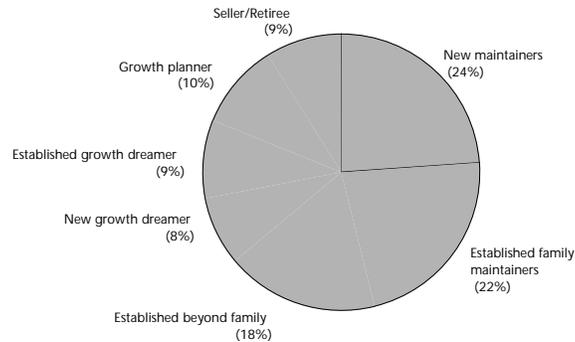
In sum, the seven groups of business owners are:

- New maintainers: modest growth businesses owned for three years or less (including start-ups, new owners of franchises, new owners of existing businesses);
- Established family maintainers: businesses with modest or no growth aspirations owned for four or more years and limited to family partners or employees;
- Established beyond-family maintainers: modest growth businesses owned for four or more years having non-family partners or non-family employees;
- New growth dreamers: high growth businesses without a plan, owned for three years or less (including start-ups, new owners of franchises, new owners of existing businesses);
- Established growth dreamers: high growth businesses without a plan, owned for four or more years;
- Growth planners: high growth businesses with a plan including start-ups, new owners of franchises, new owners of existing businesses, established owners; and
- Seller/retirees: businesses with owner selling or retiring including start-ups, new owners of franchises, new owners of existing businesses, established owners.

Of the businesses interviewed about two-thirds had modest growth plans. This group was comprised of "new maintainers," "established family maintainers" and "established beyond family." Over one quarter of the firms were "new growth" or "established growth" businesses. "Seller/retirees" were fewer than 10 percent of the firms interviewed.

Figure D—4.
Business Growth Type

Source:
Ethnic chamber small business interviews,
spring 2006.



This typology of business owners is useful when examining business assistance needs.

Starting a Business

Business owners were asked about their experiences starting a business. Since all business owners, whether experienced owners of established businesses or those just starting a business have been through this process, there was little difference in the responses by type of business owner.

Most important advice for someone starting a business. When asked what advice they would give someone looking to start a new business, more than one third of the business owners stated that entrepreneurs need to “do their homework” prior to starting a business. Over half of “growth planners” and the “seller/retirees” emphasized the need to “know your business.”

Many business owners said that you need a plan. Aspects of planning that were most frequently cited were studying financing, planning a marketing strategy and developing a thorough understanding for the particular business operation. Other concerns included finding a good location (for retail businesses) and being “able to bounce back from rejection.”

- *“Be sure you know all the aspects of the business before you begin investing money. This means all aspects of what you are going to be doing, including marketing, finances, costs, and finding your customer base.”*
- *“You need to be focused and persistent. Really work hard, be diligent and because of competition, you have to know the environment and do a lot of research. Also, balance your life—emotional, physical and mental.”*
- *“Plan, plan and plan. Work out a strategy and make sure you know what you are getting into.”*
- *“I had no idea managing customers would be so hard—when I started I had to learn the hard way how to speak to customers and how to keep them happy. Sometimes doing a good job is not enough.”*
- *“Location, location, location. For retail, you have to be in a place that draws attention and is easy for people to get to.”*

- *“It is very important to have enough money to start a business—if you have enough to take you through at least a year, you are in good shape.”*
- *“You need to get someone you trust to do the books and the taxes.”*

Many business owners emphasized that in order to be successful, entrepreneurs need to be dedicated and love what it is they are doing.

- *“Work hard and be passionate.”*
- *“If you are going to be successful, you need to be sure that you love what you are doing. You’re going to be doing it for 12 hours a day for the next 5 years, so if you don’t, the business is going to fail.”*

Organizations where you would refer a new business owner. Business owners were asked if there were organizations where they could refer new business owners if they needed help. The majority of surveyed business owners did not recommend any business service providers, instead recommending a trade organization, other business owners, a local chamber of commerce, or a local ethnic chamber of commerce.

Among the few business owners who did suggest a business service provider, most often owners recommended eCenter and SCORE as a good place to get assistance and advice.

- *“eCenter is one resource to use. It seems they give good advice.”*
- *“SCORE has lots of resources.”*

Other business service providers that were remembered by interviewed business owners include: SVWIN and SBA.

- *“I secured a \$10,000 loan through SVWIN guidance.”*
- *“The SBA for industry rules and regulations.”*

Owners of new businesses were no more or less likely to know about local business service providers than were owners of established businesses.

Biggest challenges when starting a business. The challenges to starting a business identified by business owners were varied and covered nearly every aspect of operating a business. Some challenges mentioned include finding a location for a retail store or restaurant that will be profitable but is also affordable. For some recent immigrants, breaking through a cultural business barrier was a challenge; they indicated they did not know enough about America to effectively network or sell their products. In specific industries such as childcare, individuals indicated that filling out and filing the proper paperwork is a significant challenge for newcomers to their industry.

Many business owners said they had faced one of three challenges: understanding the business, marketing and establishing a positive reputation in the business community, and financing.

- *“As a business owner, you need to understand what you can afford and what you can’t. When I first started out, I couldn’t afford any retail space. So I ran my [nail salon] out of my garage until I could afford a better space.”*
- *“I started with no prior knowledge about this industry so this lack of experience was the biggest challenge.”*
- *“Funding was the biggest challenge for me. I had to use my own money to finance the business.”*
- *“Capital! You need to make sure you’re covered for the first year. Apply for a small business loan to keep you covered if you have to.”*
- *“Getting enough capital and cash flow is the hardest. It’s best if you can take out a small business loan to help out. When you’re starting, you need enough money to get through the first year, at least.”*
- *“The first thing you need to do is establish a reputation. If people haven’t heard of you, they’re not going to do business with you.”*
- *“Getting the business name known and establishing a reputation. Also getting rapport with clients so they’d use me again.”*
- *“The biggest challenge is how to get clients and customers—you have to treat them right to get them to come back.”*
- *“Marketing is the biggest challenge.”*

How they overcame these challenges. When businesses were asked how they overcame the challenges they had faced when starting their business, the vast majority said through working hard and *“putting in the time.”* Most business owners had not utilized a business resource provider to help them when they were just starting out. Nearly 70 percent said they figured things out on their own.

- *“I just put my nose to the grindstone and worked hard.”*
- *“I bootstrapped my way through those first years.”*
- *“I didn’t know anything about running a business. I needed help but couldn’t afford to hire anyone, so I had to learn it all on my own by working hard.”*
- *“Guts. I had to learn by doing, I had to stay away from things I was comfortable with in order to be successful.”*

Among business owners for whom networking was their biggest challenge when starting their business, many stated that their local chamber of commerce or ethnic chamber of commerce were great tools for networking.

- *“The biggest challenge for me was getting my name out there and becoming known. One of the smartest things I did was to join the Sunnyvale Chamber and their leads group. I learned how to promote myself. Use the benefits that local chambers give you as a member, it can do wonders for individuals just starting a business.”*
- *“There are lots of organizations I used to network. The BBB, Asian Business Alliance, local chambers, and other business organizations.”*

Key advisors. A large majority of business owners indicated that they relied on their own intuition or the encouragement and advice from friends or family when first starting a business. Sometimes entrepreneurs utilized family networks in order to get advice from a distant family member who already operated a business.

- *“My friends and family who always believed in me got me through the first few years.”*
- *“My wife. When I was having trouble with finances, she took accounting classes. She sorted out my finances and it really worked.”*
- *“I didn’t use any organizations, but my friends and family were invaluable.”*
- *“I spoke with my Dad a lot. Also, my husband and friends. I have a neighbor who is good to bounce ideas off—she gives me good feedback from the customer’s (and Caucasian) point of view.”*

Over one quarter of business owners indicated that they turned to other businessmen and women and associates who were in the same industry as they. Some individuals also said they belonged to industry-specific trade organizations because these groups allowed them to network and get advice from individuals who had *“been through it all before.”*

- *“Definitely someone in my line of work. Finding someone who has sold their [art]work and asking for information. They’ve been through it before, and can relate to my problems.”*
- *“My key advisors were in the same industry as I am. When I was new, I had advisors that were interested in helping but now that my company is not so new, they lost interest.”*
- *“We belong to an organization of accounting firms.”*
- *“We belong to trade organizations. The Internet is nice—we belong to an owners’ nationwide industry chat board.”*
- *“My lender and banker, and others who are in the same industry.”*
- *“I had a mentor. The owner of a similar agency in San Francisco really showed me how to do it.”*

Local business services advisors. Fewer than 3 percent of the owners interviewed said that they had utilized a business service provider when in need of advice. Some businesses indicated that they didn't use a business services provider because they couldn't afford to pay them when they had just started their business.

- *“I have other family members who are in business for themselves, so I bounced a lot of ideas off them. I also talked to other people in the industry to find out what their challenges were. I don't think I used organizations at any time—I didn't realize there were non-profits who could help me. I assumed everything would be expensive, too expensive for me to afford at the time.”*
- *“I might use a business provider now, I guess. But when I was starting out I didn't have enough money to pay them.”*
- *“I don't know of any business providers in the area.”*

When asked where they would send individuals just starting a business to get advice and encouragement, most established businesses named either local chambers or local ethnic chambers as the best place to get assistance.

Do businesses need a business plan? The majority of business owners stated that it is beneficial to have a business plan when starting a business. Several business owners stated that while they did not have a formal business plan themselves, they do understand the benefits of having a plan. However, less than 7 percent said that they would write a plan to achieve what they wanted for their business in the future.

- *“Yes. It doesn't have to be a long document, but a two page memo to help you get your thoughts straight really helps.”*
- *“I would say definitely. At first it can be brief—a two page business plan. But after you've done \$50,000 of business, you really need a more embellished plan.”*
- *“Yes, it's hugely important.”*

However, several business owners indicated that they did not believe a business plan was necessary for their business, and that they did not know where to go to develop such a plan. Other business owners said they turned to websites on the Internet in order to develop an informal business plan.

Growing a Business

A portion of the interview focused on the business owner's opinions about growing a business. Just as the business owners operated a wide range of businesses, these businesses were in many different stages of growth and development. BBC broadly broke the respondents into three groups based upon the growth potential of a business—business owners who are looking to maintain their business as it is, business owners who feel that their business has a high growth potential, and those hoping to sell and retire.

Where do you see your business in 5 years? Business owners were asked what they expect their business to look like in five years' time. About two-thirds of owners were expecting to experience no growth or modest growth (merely staying competitive, or adding only a few employees to get by). About 10 percent of owners indicated that they hope to be retired in five years. More than one quarter of the businesses expected their business to experience very high growth.

When asked how they would achieve these goals, most business owners said that they would rely on their own knowledge to achieve these goals.

- *“In five years we'd like to expand into other businesses and geographically as well. Get a branch in another city, invest in other properties and get into commercial real estate.”*
- *“Everyday, our goal is to increase our client base. Hopefully, we will go international five years from now.”*
- *“The focus of my business is always changing. Early on, the challenges were, ‘Will this work?’ There were lots of doubts. Now the focus is on where I want to improve and serve people better.”*
- *“I would like to be able to hire more staff and cut my own hours so I can spend more time with my family.”*
- *“Right now we're expanding into Nevada and Arizona. Hopefully we'll be nationwide in five years.”*

Challenges for business owners looking to retire. Most business owners who are hoping to retire expressed anxiety about how to turn their business over to a new owner or sell their business. Some thought they could sell outside the family.

- *“It’s difficult to turn over the business. I’m getting ready to retire, but nobody wants to operate a grocery store when they could be working in high tech and making more money.”*
- *“We’re looking for a young couple who can take over our business [producing Japanese sweet cake]. But they would need to make a huge time commitment [to learn the technique used to make the cake] and we haven’t found anyone yet.”*
- *“It is difficult. However, I agree with what I was once told: organize around the function, not the person. Even if you have a willing family member, if that person can’t do the function, you need to find someone else.”*
- *“Most business owners want to keep it in the family. But sometimes the next generation doesn’t want it. You can’t force them to take it—they have to be passionate about the business for it to be successful.”*
- *“If you have a good business, someone will be willing to buy it from you.”*

Ethnic business owners who are recent immigrants were particularly concerned about turning over their business to a younger generation.

- *“I don’t have a good solution. It’s a shame that some businesses are shutting down because the younger generation doesn’t want to continue. We need to market these businesses to new Japanese families since the fourth and fifth generation is so far removed. They’ve totally assimilated to American culture and don’t want to take over the businesses. I recently met a young Japanese American who was second generation—that’s the kind of person who will take over the shops.”*

When asked if they had any advice for a business that was looking to close or change ownership, most business owners did not have any advice since they had not gone through the experience themselves.

Challenges for business owners seeking to maintain their business. The majority of surveyed business owners were satisfied with the position of their business. These were the “new maintainers,” “established family maintainers,” and “established beyond family maintainers.” Most of the business owners interviewed fit this group. If they expected any change in their business at all, it was very limited.

- *“It’s enough just to make sure I remain profitable.”*
- *“I hope to have a self-sustaining business such that it only requires a little of my time.”*
- *“We’d like to branch to another location.”*
- *“I hope to move [my restaurant] to a better location. Maybe I’ll be able to own the property instead of renting.”*

Business owners who are seeking only to maintain their business anticipate threats to the status quo rather than new challenges and opportunities. Their concerns often reflect perceived changes in the demographics of Silicon Valley, changes in technology, or other industry or region-specific problems. They want to stay competitive and in operation, but can't always justify the expenses they incur to accomplish this. They probably will not seek assistance, instead *"working it out on my own."*

- *"The rapid changes in technology makes it hard. You need them to stay competitive, but they are expensive, so you have to be sure to choose the right one."*
- *"Our business depends on Japanese customers. The previous generation was loyal and frequented the shop regularly. Now, the third and fourth generations shop at major chain grocery stores."*
- *"The ability to adapt to market competition [is the biggest challenge]. I will have to update my strategies, pricing and packaging of my products."*

Challenges for business owners seeking high growth opportunities. A portion of the surveyed business owners expected their companies to expand rapidly in the coming years. These businesses include "new growth dreamers," "established growth dreamers" and "growth planners." For example:

- *"I'm looking to hire 50 people to work under me."*
- *"We hope to expand our [Internet] company internationally."*

Again, there are many challenges brought to light by business owners seeking to grow rapidly. Most business owners expecting high growth were very confident in the product that their company offers, whether it is a restaurant, a technology company or a furniture maker seeking to develop her work into a full-sized furniture store. However, they understood that they would face many challenges along with growth. For example, about one-half of the "growth planners" were concerned about the ability to gain access to the capital that will be required in order to make their business "take the next step."

- *"Growth is a challenge...it is difficult to keep the business in the same momentum as when you first started."*
- *"I need to seek out loans for small businesses and grants for minority women [so that I can grow my firm]."*

Many other owners of high-growth businesses said their biggest challenges concerned the internal development of their firm.

- *"As the business grows, we work as a team to contribute to the overall success of the business. The responsibility is bigger because our goals are also bigger as your organization grows."*
- *"We need to maintain our company's consistency and credibility within our industry to develop partnerships and license our products."*
- *"I am learning how to establish a growing sales team and promote within the company [to grow organically]."*

Easier or more difficult to own a small business in Silicon Valley? Business owners were asked whether they think it is easier or more difficult to own a business in the Silicon Valley compared to other parts of the country. Many respondents indicated that they didn't know or could not make a fair comparison since they had never owned a business in another part of the country.

Among those who did answer the question, more than one quarter stated that they thought owning a business in the Silicon Valley was more difficult than in other parts of the country. The most frequently cited reason for believing that owning a business in Silicon Valley is more difficult is the high (and increasing) cost of operating a business, particularly costs of owning real estate and high labor costs and taxes. *"It should be easier because of all the business opportunities in the Silicon Valley, but everything costs so much here I think it's probably harder."*

A few business owners stated that it is easier to do business in the Silicon Valley relative to other parts of the country. These business owners often pointed out that their businesses are dependent upon the local ethnic community.

- *"It is easier because of the large Hispanic community."*
- *"I couldn't do it anywhere else because there's so many Japanese here."*

Easier or more difficult to operate a small business as an ethnic person? Business owners were asked whether they felt it was more or less difficult to operate a business as a member of an ethnic community. Nearly two-thirds found it easier to do business in their ethnic communities largely because they felt that they had their community's support. Some simply said that business is business: it's the same everywhere.

- *"No more difficult than any other small business owner. You just have to be persistent."*
- *"Ethnicity has nothing to do with business."*
- *"There are cultural differences, but I don't think it's more or less difficult."*
- *"That's nonsense, you are what you make it [the business]."*

Those who did find it more difficult faced obstacles with regard to financing and getting support from service providers. For these people, language and cultural barriers were a challenge.

- *"It is harder to get to certain resources like finance."*
- *"African Americans are not offered the same loan rates."*
- *"Of course it is. As an African American woman, it is especially difficult."*
- *"People judge you before they even speak with you."*
- *"Most agencies are not bilingual."*

Recommendations for chambers. Many of the small businesses made specific suggestions to help chambers understand their needs. Many felt that local and ethnic chambers needed to market their services and disseminate information more effectively. Nearly one-third of the businesses suggested that the chambers advertise in traditional media, including newspapers and radio spots. Many business owners wanted more regular email contact from chambers. Others wanted more community outreach.

- *“Continue marketing services. If people knew free services existed, they would use them.”*
- *“Let people know what your services are.”*
- *“Put more effort into reaching out to the community and educating people about all the available resources.”*
- *“Reach out to the community.”*
- *“Be more active. Do more outreach.”*

Other suggestions for chambers included helping small businesses find financing.

- *“Work more with your local businesses and banks, banks have programs for minority business owners.”*
- *“Get more grants and sponsorships from outside sources.”*
- *“We want a loan from the chamber.”*
- *“Help find a company that is willing to give low interest loans to people who have overcome so many barriers.”*
- *Help with financing. Provide more workshops on how to start a business and the trouble spots we run into.”*

Business owners were even more specific about having their training needs. Others wanted more effective networking events, financing assistance and easy access to information. Some wanted information in their native language.

- *“We need exposure. Chambers should host an event and promote a different business each month.”*
- *“Promote businesses with online links from the chamber website to the business website.”*
- *“I’m weak in finance, so I need networking for business spreadsheets and financial understanding.”*
- *“Funding to organize a library of resources for members.”*
- *“Publish information in Spanish.”*

Others felt that there needed to be greater community between chambers. Instead of competing for members, they should be working in common to help communities. Advocating for small business should be their primary goal.

- *“The chambers have to get together. It’s a very scattered group that compete with each other.”*
- *“Get out the word. We need to be united.”*
- *“Do more networking with other cultures.”*
- *“Advocate more for small businesses.”*

Some small business owners made specific recommendations to the chambers on how to be more successful and increase membership. Some business owners felt that the chambers should offer more benefits to members and in some cases charge for services. Many felt that traditional services like mixers were ineffective.

- *“Offer more benefits for members.”*
- *“We feel that we pay dues and get nothing in return.”*
- *“Involve members in decision making not just the board of directors.”*
- *“People have the impression that chambers just hold parties. You have to provide more information on your goals and services ... [through] electronic email.”*
- *“You should charge for services. Don’t you need to pay rent?”*
- *“Give more notice prior to workshops and become more noticeable in the community.”*
- *“Mixers don’t cut it ... bring in people of influence ... leaders in the ethnic community.”*

Firms were asked about specific services they were interested in receiving from their chamber service providers.

- When asked about availability of classes, over half of the respondents would attend classes and seminars on a variety of business subjects. Many suggested that classes would be better attended if they were offered in the evening. New business owners were particularly interested in these classes.
- Of the ethnic businesses interviewed, nearly half said that they would take advantage of Internet classes that address small business needs.
- Nearly half of the businesses were interested in having a small business counselor come to their place of business.

- Firm owners were interested in finding out about organizations that have business planning experts on hand (especially business owners with high growth plans). Many business owners emphasized that business service providers are of little value to them if they do not have hands-on experience in small business operations. Many were looking for experts who have been in business longer than they have been.
- Businesses of all three “growth” types showed significant interest in learning more about marketing. More than two-thirds of the business owners showed interest in having more marketing opportunities made available to them.
- Only some of the business owners wanted more information on writing or enhancing a business plan. For example, many “growth planners” were interested in this help but none of the “growth dreamers” showed interest in writing a business plan.
- When asked if they would like follow-up contact from the chambers, about half of the businesses interviewed answered “yes.” New businesses and owners with high growth plans were most interested in follow-up. Others recommended sharing interview results with the small business community. *“Maybe this survey can help you help us.”*

Recommendations for government service providers. Although the focus of the executive interviews was not traditional public services, at the end of the interview small businesses were asked if they had any recommendations for government small business services. A few business owners wanted licensing and paperwork to be less cumbersome or less expensive. Some owners wanted more outreach to ethnic communities. Others wanted more opportunities to do business with the City of San José.

- *“San José has expensive licenses ... people might prefer to do business outside San José.”*
- *“We want more outreach to those starting a business.”*
- *“The more information people receive, the better.”*
- *“Everyone needs to give more support to African American businesses.”*
- *“Have the city do business with my business.”*

SVWIN/Chamber Interview Guide 3

Chamber/Interview number: _____

Name of firm: _____

Name of owner/manager: _____

Title: _____

Address: _____

Phone: _____

E-mail: _____

Date/time interview completed: _____

Person completing the interview: _____

Call-back time: _____

Any questions, call Annette Humm Keen at BBC 303-321-2547 ext. 245 or 303-522-7269 (cell)
or fax:303-399-0448 or email at hummkeen@bbcresearch.com
Or, B.J. Sims at SVWIN 408-928-1549

Hi, I'm -----, I'm calling today from the -----Chamber of Commerce. The chamber is working to better understand local business needs. I am calling 50 chamber members and other businesses for suggestions on how to help the local business community. Other local chambers are interviewing their members as well.

I would like to talk with you about your firm and get some of your advice and opinions. Our discussion will take about 20 minutes to complete. And, be completely frank ... your comments will be combined with many other firms. Your input will help the [ethnic] business community. We will send you a copy of the report when we are finished. We can also let you know about local business assistance programs.

5. Are there other owners of the business? (Family or others or both?)

6. Do other family members work in the firm? How many people?

7. Do you have any other employees?

B. Starting a Business

1. We want to learn more about challenges in starting new businesses. If someone from our [ethnic] community wanted to start a business, what would be the most important advice you would give them to help them be successful?

2. Are there any local organizations you can think of where you could refer the new business owner for help or advice? [list all named, plus any impressions of them]

3. Thinking back to when you first started or bought your business, what were some of the biggest challenges you encountered?

4. How did you overcome these challenges?

5. Was there any help from others or local organizations that was important? What types of people were your key advisors? [family, friends, accountant, attorney, banker?]

[Especially interested in if they went to a business assistance provider ... what was their experience?]

6. [If hired a paid employee] What compelled you to hire your first paid employee? Was this difficult? Did you get help making this hire?

C. Business Growth and Other New Challenges

1. As your business has matured, have the challenges you face changed? What are they today?

2. Let's turn to the future of your business. What is your vision for your business? What do you hope for your business 5 years from now? Any changes from today?

[For example, will you try to develop new products or services? Expand your facility? Add more employees? Or, just keeping the business going?]

3. What needs to happen to achieve that future? What are some of the challenges in achieving that future? [Probe: finding good employees, money for expansion, new facility ... eventually turning the business over to family or new owners?]

4. What are you doing to address these challenges?

5. Just like someone might ask you for advice on starting a new business, is there anyone you would turn to for advice on how to achieve your goals for your business?

[Note: can reword in context of what the challenge is ... for example, if getting a loan is the issue, where turn to for help?]

6. Are there other local organizations you know of that provide assistance to businesses trying to expand? [have them name as many as they can and give impressions]

4. What about challenges marketing a business? Advice? Any places that can help?

5. What about business owners who want to retire, but keep their businesses going with new owners (or family)? Advice? Any places that can help?

E. Business Assistance

1. Let me describe some of the help for local businesses available in the local community. Tell me whether or not it would interest you. And, we can get you more information on it if you like.

Let me first tell you what types of help or information are offered. They are either at no cost to you or just have a very small fee.

READ THESE FIRST:

- a. Classes and workshops you can attend on a wide range of topics. These classes are during the day or evenings.
- b. Classes and materials on the Internet that help local businesses.
- c. Business counselors that come to your business to talk with you.
- d. Organizations you can go to that have experts you can talk with.

Would you be interested in any of these services? [get answers for each type above]
What topics would be most useful?

2. Would you like me to have someone follow up with you with information on these services?
[get list of what they want follow-up on]

3. We have found that few local businesses know about these opportunities for assistance.
What is the best way to let [ethnic] business owners know about these resources?

3. Before we finish what suggestions would you have for the [xxx] chamber?

4. Any other suggestions for local governments when thinking about helping local businesses?

5. Any last thoughts or suggestions?

Thank them for their time.

APPENDIX E.

Additional Information on Virtual Networks and Other Entrepreneurship Programs

Ewing Marion Kauffman Foundation Initiatives

Background. Ewing Kauffman established the Ewing Marion Kauffman Foundation in Kansas City in 1966. In the early 1990s the Kauffman Foundation began focusing on fostering entrepreneurship in addition to its core mission of improving education.¹ The Foundation currently seeks out innovative programs for funding in entrepreneurship and education. The mission of the entrepreneurship portion of the Kauffman foundation is to “Increase the number of Americans who have the desire and ability to build and sustain innovative enterprises.”² Two of the most successful and well-know Kauffman programs are FastTrac, a small business training program, and SourceLink, a network approach for connecting entrepreneurs and community resources.

FastTrac training. FastTrac is a comprehensive training curriculum supported by the Kauffman Foundation. The University of Southern California’s Entrepreneurship Program developed the initial program in 1986 and the current Kauffman Foundation relationship started in 1993. FastTrac certifies partners such as chambers of commerce, universities and other small business development organizations for participation in the program and provides trainers with materials at cost. FastTrac does not specify a particular fee structure for courses. FastTrac offers ten programs in three areas:

- Community development- offered by organizations serving entrepreneurs;
- For credit – offered by colleges and universities as part of degree programs; and
- Microenterprise community development – offered by groups serving micro-entrepreneurs.

FastTrac courses help members develop business plans and learn the skills needed for operating a business. A complete list of programs is provided on the next page.

Availability in the Bay Area. Although FastTrac is offered by over 300 organizations in 49 states nationwide, the only registered Bay-Area provider is the Erlich Organization, a consulting firm in San Francisco.

SVWIN opportunity. FastTrac provides SVWIN a low-cost option for small business training. SVWIN might coordinate and support course offerings by a local chamber or other group. One new class marketed by FastTrac is the TechVenture course aimed at aspiring tech entrepreneurs. Although

¹ A History of the Ewing Marion Kauffman Foundation: Entrepreneurship & Education at the Kauffman Foundation. Available at <http://www.kauffman.org/foundation.cfm?topic=history> Accessed 4/4/2006.

² Learn More About Entrepreneurship: Entrepreneurship & Education at the Kauffman Foundation. Available at <http://www.kauffman.org/entrepreneurship.cfm?itemID=474> Accessed 4/4/2006.

tech-entrepreneurship is not a primary concern for the Silicon Valley area, SVWIN might be able provide expertise to FastTrac regarding this program in return for more specialized FastTrac assistance in other sectors. FastTrac requires minimal investment and offers the opportunity to foster a relationship with the Kauffman Foundation possibly resulting in future collaboration on small business development projects.

List of FastTrac programs by subject area. The current programs available through FastTrac are:³

- Community development.
 - FastTrac NewVenture;
 - FastTrac GrowthVenture;
 - FastTrac TechVenture;
 - The Business Mentor;
 - FastTrac Manufacturing; and
 - Listening to Your Business.
- For Credit College/University.
 - Planning and Growing a Business Venture; and
 - The Business Mentor.
- Microenterprise Community Development.
 - First Step FastTrac; and
 - Developing Your Family Child Care Business.

SourceLink. SourceLink started as KCSourceLink, a network of 140 nonprofit resource providers for entrepreneurs in Kansas City. Since its inception, KCSourceLink has worked with community organizations to found SourceLink partners in Cincinnati, Atlanta, Cleveland, Jacksonville and a statewide initiative in Kansas. The SourceLink program includes⁴;

- The Resource Navigator – an online database tool for organizing non-profit resource partners;
- Web Site Template – a prepackaged template website designed for visibility and ease of use;
- Biz Trakker – a client management tool that tracks results, impacts and market data; and
- Implementation Guides – directions for launching and maintaining the resource network.

³ FastTrac Programs. Available at <http://www.fasttrac.org/programs.cfm> Accessed April 4, 2006.

⁴ U.S. Sourcelink: Small Business Resources at the right time. Available at <http://www.ussourcelink.com>. Accessed April 4, 2006.

SVWIN opportunity. SVWIN and its partners provide a less comprehensive version of SourceLink with their Web-based Business Services and Funding Opportunities. SVWIN might benefit from a more robust resource network and the client tracking data provided by SourceLink.

SVWIN might approach area educational institutions as sponsors for a SourceLink program similar to the Wisconsin Entrepreneur's Network (WEN). WEN is a University of Wisconsin-backed program that provides support for entrepreneurs and hosts the SourceLink-based Resource navigator for all small business networks. Ashwini Rao, a staff member of WEN who spoke with BBC, offered to provide further information for SVWIN or other interested parties about implementing the Resource Navigator and other services offered by WEN.⁵

Other Examples of Virtual Network Components

City services hotline. By asking for "NYC Business Solutions," the New York City Department of Small Business Services is accessible directly through a non-emergency government access program, "call 311."

Information about the citywide program, "call 311" is available online at http://www.nyc.gov/html/doitt/html/about/about_311.shtml. Phone: 212-639-9675.

On-line classes. The Central California Hispanic Chamber links to a 12-session, interactive-online, how-to-start-a-business course with quizzes, feedback and steps to creating a personalized business plan. The Chamber now directs all new members to this free class. The class has become a useful introductory tool for helping new businesses define their individual business needs and prepare for follow-up training programs.

CCHC's free Online course is accessed at: <http://www.cchcc.net/icourse.html>. Phone: 559-495-4817.

How-to-start a business guide. The Greater Austin Chamber has written an extensive 30-page downloadable business guide that provides members with easy access to step-by-step training in business development. The guide focuses on creating a business model, obtaining capital, developing a marketing strategy, managing operations and planning growth. The guide has successfully provided the Chamber with a tangible format to easily respond to new business owners' questions.

The Greater Austin Chamber Small Business Guide is available on the chamber website at <http://www.austinchamber.org/TheChamber/SmallBusinessResources/reports/SmBusGuide.pdf>. Phone: 512-478-9383.

Business plan development. The New York City Department of Small Business Services has a downloadable step-by-step workbook for writing and developing a business plan.

A Step-By-Step Business Plan Workbook, a user-friendly SBS document, is downloadable from http://nyc.gov/html/sbs/nycbiz/downloads/pdf/the_plan.pdf.

⁵ Phone Conversation with Ashwini Rao, April 4, 2006. Contact and program information available at <http://www.wenportal.org>

Interactive map and real estate database. The Charlotte Chamber in North Carolina hosts an interactive Internet map on its website identifying available office and industrial space throughout the city.

Small business owners looking for available space in Charlotte can find the map at http://www.charlottechamber.com/content.cfm?category_level_id=137&content_id=1001&CFID=2304625&CFTOKEN=9477234. Phone: 704-378-1300.