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A New Way to Talk About Small Business: The Time Has Come for a Common Language

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A New Way to Talk About Small Business: The Time Has Come for a Common Language

by Penelope Douglas; Co-founder Pacific Community Ventures &
Lauren Friedman Dixon; InSight at Pacific Community Ventures

There is a steady call for policies and programs to help small business lead the charge in hiring more workers and helping to restore prosperity to areas that have been hurt by the recession. To be successful, however, it is time for academics, policymakers, investors, community leaders, and business owners to have a more fruitful discussion about what small business actually needs. Such a discussion is imperative now, during a time of financial crisis, but it is also necessary if we are to help move the sector forward in the coming years. In this paper, we are proposing that we adopt a common language based on a new small business taxonomy that can make this conversation more productive by bridging the communication gaps between various stakeholders. In an effort to create that common language, support policy creation, and enhance future discussions, this paper lays out a a system of policies and programs – a support structure – for small business using a simple taxonomy of small-business categories based on revenue. Ideally, this will lead to more efficient models for small business growth, including much needed job growth as the nation emerges from the recession.

In our 12 years of helping small business at Pacific Community Ventures, we have gained valuable insights into their needs at different phases of development, and we believe that this knowledge can help move the conversation forward.[1] As small business investors, creators of assistance programs, and policy researchers, we believe that:

1. The most useful way to talk about small business is by revenue categories, not by number of employees.
2. All businesses need structured support systems, not just capital.

The U.S. Census Bureau, the Small Business Administration (SBA), and nearly every other organization that analyzes business use the number of employees as a measure for comparison. In our opinion, a more useful method would be to categorize companies by revenue size. Creating revenue categories allows one to identify businesses with similar needs and allows for a more precise understanding of where value can be added to small businesses. Pacific Community Ventures has worked with hundreds of small companies with revenue ranging from $100,000 to $50 million. Experience tells us that there are key inflection points where many businesses stall. These tend to be when revenue reaches $2 million, again at $5 million, and then approximately $20 million. The following discussion explores how grouping small businesses by revenue is essential to tailoring better value-added solutions at critical points in time of a small business' growth.

We also believe that small businesses, particularly those in underserved communities, need more than financing to thrive. They need a support system. At different stages, businesses need a diverse package of supports. At almost every stage, that package includes training and knowledge, access to capital, financial capital, advisory services and networks. But at each stage, the mix of supports needs to change (sometimes dramatically) to allow the business to take the next step in its evolutionary growth. Getting the mix right at critical points in time is hard and there is no one-size-fits-all solution.

According to economists, the recession is officially over. Yet small businesses are not yet hiring. We spend an inordinate amount of time discussing the problem mainly because we lack a useful taxonomy to frame these discussions and create solutions. A common language based on a taxonomy that categorizes companies by revenue size has the potential to be the key to job creation and small business success.

1 Pacific Community Ventures (formerly Silicon Valley Community Ventures) opened its doors in 1999 to develop and invest in businesses providing economic gains to low/moderate income (LMI) communities in California. PCV helps companies in traditionally overlooked areas to gain access to capital, business advice, and critical business resources that will accelerate company growth. Currently, PCV targets existing businesses throughout California, but has a particular focus on the Bay Area, Los Angeles, San Diego and the Central Valley. By connecting its portfolio companies with the people and resources of the region's vibrant business network, PCV aims to create a vital new network that transcends barriers and reaches across communities.

Background

Articles abound in the media about the lack of lending to small business during this economic crisis. "Leaders Stumped by Lending Slump" wrote John Tozzi in the San Francisco Chronicle. Bob Herbert called Americans' disappointment with the lack of job creation, "Wrong Track Distress" in the New York Times. The Times reported in mid-2010 that "Small-Business Lending is Down, But Reasons Still Elude the Experts." Similar articles continue to regularly appear.

Small business in the United States is widely seen as a major engine of job growth. In convenings of the Federal Reserve Bank throughout the country, community leaders, bank executives, policymakers, and economists discussed how to finance small businesses in order to spur growth and create jobs. Small firms accounted for 65% of net new job growth between 1993 and 2009, and employ 50% of all private sector employees in the United States.[2] Billions of dollars in recovery act funds have flowed to lending institutions. The SBA backed more loans in 2010 than in 2009, although the amounts were significantly less than the $20 billion of loans backed in 2007. In hopes of increasing loans to underserved communities, the SBA also recently announced that CDFIs could apply to become SBA 7(a) lenders. Yet these and other efforts to promote small business growth during the last two and a half years seem to have largely failed. Small business owners are hesitant to hire, fearful that the economy is not truly in recovery.

Aside from new job growth, small businesses are also important for other contributions to economic stability. Small businesses employ a greater share of minority and disadvantaged employees than do their larger counterparts. Approximately 66% of Hispanic workers are employed by small businesses, along with 63% of individuals with a high school degree or less, 59% of disabled workers, and 64% of rural workers.[3] In December 2009, 67% of employees in the Pacific Community Ventures Portfolio lived in low- and moderate-income areas. All of these workers were the beneficiaries of small business job creation.

Given the many attempts to spark small business growth, to little avail, one wonders whether the most significant problem in the efforts to craft solutions to this crisis is an overly simplistic understanding of the small business sector today.

Before we go any farther, it is important to understand what we mean when we talk about small business. There are several different types of small business, from the venture-capital-backed start-ups that are often high-tech and science based, to microenterprises–very small businesses, ranging from crafts to artisanal foods to services, and are most commonly owned and operated without paid employees.

The small business sector we discuss in this paper is composed of "brick and mortar" companies that start up in neighborhoods around the country every day. They include pharmacies, dry cleaners, grocery stores, food and specialty goods manufacturers, and restaurants, to name a few. These companies provide services to the communities they are in, employ local workers, and become community fixtures. Many of them have the prospect of being high-growth, even though they are not as often recognized as start-ups. They are the businesses that we interact with daily and that strengthen our communities.

A New Small Business Taxonomy

As noted, current discussions categorize small business by employee count. The U.S. Census Bureau, for example, tracks businesses with less than 20 employees, 21-99 employees, 100-249 employees, and 250-499 employees. Although these are useful distinctions for the census, small businesses in varying sectors have different employment needs. Manufacturing plants can be highly employee-intensive while a pharmacy can grow more quickly with fewer employees. Location is also an important factor in hiring. In higher-cost areas, employers may use more flexible hiring methods, such as hiring more hourly workers or contractors. Therefore, businesses of the same size will most likely have different needs. If the reason for a taxonomy is to effectively group businesses by similar needs, and therefore be able to tailor solutions to those needs, it is imperative that the categories include companies in comparable situations.

2 Small Business Administration Office of Advocacy, "Frequently Asked Questions." Available at http://www.sba.gov/advo/stats/sbfaq.pdf

3 Brian Headd, "An Analysis of Small Business and Jobs" (Washington, DC: Small Business Administration Office of Advocacy, March 2010).

The chart below is based on revenue, not employee size – as put forth in the new taxonomy – to support the creation of value-added solutions for small business.

Company Size (by revenue)	Critical Issues
\$100K – \$2M	Basic operations management, first level of distribution, bootstrap or outside financing
\$2M – \$5M	Production, new product decisions and rollout, branding, hiring key employees, financing
\$5M – \$20M	Maximizing distribution and margins, distribution channels, use of existing infrastructure, team development, brand building, making expansion and financing decisions, financing
\$20M – \$50M	Strategic planning, examination of skills and experience of founders, complex financing decisions, financing

Two case studies illustrate the need for financing at all stages, and the additional need for tailored support systems at various inflection points.

> ***CASE 1: A branded consumer goods manufacturer.*** Pacific Community Ventures invested in this company when revenue was near \$5 million. The company's revenue had been at \$5 million for some time, and the company's brand had attracted an investor/CEO. Within a year of the investment and with the new CEO, revenue had surpassed \$5 million, and after two years, revenue had grown to nearly \$10 million. With the investments, the company was able to dedicate more money to research and development, maximize infrastructure, better use technology, and increase marketing and sales. These uses of capital contributed to their strong and profitable growth.

> ***CASE 2: A maker of specialty food items.*** With Pacific Community Ventures' initial investment, this company was able to increase production capacity and hire new employees, growing from \$10 million to \$19 million in revenue. However, the company stalled at \$19 million several years later, and the management team and PCV identified the need for advisory support in the form of strategic planning. To help the company exceed the \$20 million inflection point, PCV and the owners completed a strategic planning process to refocus on the company's strategic assets. This work also reinforced the need for the CEO to focus more on business strategy, positioning the company for continued growth.

How Business Goals Affect the New Taxonomy

In an ideal world, a simple categorization of businesses would create the perfect structure for policy solutions and job growth. However, in today's complex business environment, the above taxonomy can only provide a common jumping off point. After determining the basic needs of a company on the basis of revenue, a deeper look at the company's goals can help provide a more customized solution. The entries below encompass only a few of the largest categories of "brick and mortar" company goals. The categories and needs are examples of the kinds of additional insights that can help investors and owners move to the next step in their business plan.

Social Enterprises

Companies that fulfill social purposes as well as financial goals for investors, employees, and stakeholders are "social enterprises." Investors may include both grant or subsidy providers as well as debt and equity providers. Capital may be structured to better align with long-term versus short-term success. Achieving both a financial and social impact goal adds necessary complexity to building these companies. A portfolio of social enterprises might include small companies falling into any or all of the revenue classifications listed above. While a focus on social enterprise has implications for additional areas to add value, and additional duties for boards and management, it does not change the basic needs for growing successful small businesses.

Enterprises Focused on Environmental Sustainability

Although there are overlapping interests among those committed to social enterprise and those committed to environmental sustainability, they differ in important ways. For example, a commitment to the social mission of quality jobs for lower-income workers does not by definition mean a commitment to environmental sustainability. Clarifying desired nonfinancial outcomes allows the policymaker or investor to select where to emphasize and to add value. Policymakers or investors will therefore focus on a subset of small businesses and again there may be additional areas for added value to help these companies grow, but the basic needs list for all small businesses remains the same.

Companies Created to Benefit Underserved Communities

There continues to be interest and growth in investment in successful small businesses that benefit underserved and lower-income communities. There is also a vibrant and growing demand by investors to be a part of a place-based investment model, that is, local investing. Issues related to local or community investing and tied to the reality of our global economy require a nuanced approach to helping community investments succeed. Again, this adds to, but does not take away from, the basic list of needs to help the growth of small businesses.

Minority- and Women-Owned Businesses

Earlier this year, the SBA hosted a series of meetings as part of the Addressing the Financing Needs of Small Businesses initiative. The need for technical assistance was a common theme. Participants mentioned that minority business owners often have restricted networks, limiting their access to financial resources, technical assistance, or mentoring. It was also noted that Hispanic businesses face unique challenges due to the lack of tools and training in Spanish. Hispanic business owners may be unaware of the programs and resources available to assist small businesses or the types of documentation and information that banks require for credit decisions. It seems clear that improving the financial management skills of minority business owners is a critical step in enhancing their credit-worthiness.[4]

Again, there may be overlapping objectives for policymakers and investors working with minority- and women-owned businesses and any other business categories listed above. For example, there may be targeted focus on both sustainability and minority ownership as important areas of emphasis and added value. By focusing on this subset of small businesses, policy makers and investors may determine additional ways to add value, adding to, but not taking away from the basic needs list for all small businesses.

A New Support Structure for Small Business

The purpose of the taxonomy is to move forward the conversation about small business as a job creator and the backbone of our economy. The current focus is on financing assistance. Although lack of small business financing options is a real problem, it is not the only solution to the small business crisis. We believe a support structure for all small businesses is also needed. This support structure should be built on the ability to identify the changing needs of all small businesses and the systems that must be in place to allow them to succeed. There is no one-size-fits-all solution.

In the late stages of the recession, small companies began shedding jobs. This could be due to credit access issues. It is now easier for large companies to access credit, while the small companies struggle. Until this pattern is corrected, it is likely that small businesses will continue to bear a larger share of the net job loss. The Small Business Jobs Act, signed by President Obama in September 2010, created a new $30 billion Small Business Lending Fund, including $300 million specifically for Community Development Financial Institution (CDFI) loan programs. The fund will provide capital to small banks with incentives to increase small business lending. It is too soon to tell what effect this will have on jobs, but if it is similar to earlier stimulus money aimed at pushing banks to lend to small business, it will likely have limited success. This type of financial support must be partnered with other support systems if small businesses are to succeed.

4 "Addressing the Financing Needs of Small Business: Summary of Key Themes from the Federal Reserve System's Small Business Meeting Series" as included in Chairman Bernanke's Semiannual Monetary Policy Report to the Congress, July 21, 2010.

There are four main needs all small businesses have at different stages of development, and the support systems put in place must address these issues for all the categories in the taxonomy.

1. Training and knowledge around the uses of capital
2. Access to capital
3. Advisory services
4. Broad networks

Training and Knowledge around the Uses of Capital

Small business owners often know part, but not the entire lexicon of financial tools to grow their business successfully. Therefore, they frequently make choices without a full understanding of the implications of their decisions. Training and education about financing options are even more important as rules and options shift with the current state of the economy.

During a series of small business meetings hosted by the Federal Reserve, business owners expressed concerns about new underwriting standards, resource constraints, and a tightened regulatory environment. These owners are trying to do what is best for their businesses, but need training to fully understand the types of capital available to them at different stages, and the processes for accessing that credit. Banks, investors, and business assistance organizations can help educate business owners on all types of capital, including cash, family funds, credit cards, commercial debt, equity, as well as the function of collateral. Financing discussions also should include information about sources of various types of debt as well as equity, and the uses of capital.

Access to Capital

Many small businesses are already credit-worthy borrowers. Traditionally, banks and non–bank financing entities (such as CDFIs) both seek these customers. However, in the current economic environment, small businesses are finding it harder to borrow money. At the Federal Reserve Board of Governors Capstone Conference this summer, several bank executives described large banks' efforts to extend credit and the "credit worthy borrower" they are looking for.[5]

During down economic times, even more small businesses require working capital and yet do not meet the current "credit worthy" standard of commercial banks. Many of the business owners are financially stable, and some reported that even if they had a current loan out with a bank, the banks would come back asking for additional collateral to continue the agreement. These practices, while perhaps financially sound, have left many small business owners unable to borrow. As a result, these owners now rely on alternative funding sources, such as personal credit and home equity loans.

Businesses in the smaller revenue categories ($150,000 to $2 million; and $2 million to $5 million) often fall into this "not credit-worthy category." In addition, many larger small businesses, those in the $20-$50 million dollar revenue range, accessed debt capital prior to 2008 and have heavy debt burdens. With the onset of a steep and prolonged downturn, many of these companies saw revenue decline, and they are now extremely constrained as they attempt to grow once again.

Access to capital would be improved by more efficient referral systems among banks and non-bank financing organizations. Capital assistance should also incorporate both debt and equity providers to meet the needs of a wide range of small businesses. The needs of small business include access to both debt and equity vehicles, and in this prolonged downturn, banks and equity providers must build on one another's capabilities in order to help small businesses maintain, and then grow.

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5 For a summary of the themes from the Federal Reserve's small business series, "Addressing the Financing Needs of Small Businesses: see www.federalreserve.gov/events/conferences/2010/sbc/downloads/small_business_summary.pdf.

Advisory Services

All small businesses benefit from advisory services, including technical assistance, but technical assistance is only one service on a full spectrum of options. Small businesses need different types of advisory services depending on their size and stage of growth. These services add a great deal of value to the pre-financing process, but advising can be equally critical post-financing. Entrepreneurs often make their most important decisions after they receive new capital, making post-financing, strategic business advising incredibly valuable.

During extremely weak economic periods such as our current cycle, strategic business advisory services also help business owners with the multitude of challenges they face daily. The additional, possibly "hidden," value of advisory services is the exposure and connections it provides, limiting isolation of small business owners during challenging times. Through a connection to advisory services, business owners gain a new business network, which adds untold value.

> ***CASE 3: A consumer giftware retail and design company.*** The founder of this company saw joining PCV as an opportunity to start addressing long-term profitability issues. They posted strong sales, but the company had never made a profit and continued to grapple with cash-flow challenges. The founder and his team moved directly to working one-on-one with a PCV advisor, who provided "reliable, verifiable and high-level advice." Within nine months, PCV's advisor "helped us drill down on the hard numbers, review projections, pricing and product shipments." The founder also heeded his advisor's specific recommendation to seek an intern in finance from a local MBA program. A few months later, they hired that intern as a part-time employee. After working with PCV for just nine months, the company ended the year profitably for the first time in 10 years.

Networks

All small business owners need business networks. Networking through real time CEO-to-CEO peer conferences and meetings provides access to business ideas and business opportunities. These face-to-face sessions can also be continued or extended through online networking tools. Advisory services and networking structures combined together provide more value than the "sum of the parts" to small business owners. In the past, the United States was a worldwide leader in fostering innovation and entrepreneurship. Current comparisons show that the United States has fallen in relation to other international business powers in our ability to support innovation. Strong social networks have the ability to bolster the growth of innovative businesses.[6]

Networks for access to government and large corporate contracts.

Small businesses that win government contracts have been able to stay afloat in this recession. However, many minority-owned business enterprises (MBE) are often unaware of the opportunities for government contracting, and therefore are not in a position to bid for government contracts. Lack of credit can hinder a small, minority-owned business' opportunity to bid for and receive these contracts. Without the capital to float their operation while waiting for government payouts, small businesses may be unable to take advantage of these contracts even if they are aware of the opportunities.

MBEs would benefit from networking and training in this area. According to an October 7, 2009 New York Times article, "Getting Government Contracts," only 2-3 percent of small businesses are currently ready to do business with the federal government. The process to be government-contract ready has more than 10 steps. These steps include registration with more than three separate companies, several applications, and meetings with local representatives. Only once a company has managed to get through this process are they eligible to receive information on available contracts and bid for them.

The SBA has three programs aimed at making it easier for small businesses to gain access to government contracts: HUBZone, the 8(a) program, and Innovation Research/Technology Transfer. Each of these programs addresses a certain type of small business, with the first two programs aimed at opening access for underserved and disadvantaged businesses and business owners. The 8(a) program provides socially and economically disadvantaged firms

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6 Martin Neal Bailey, Karen Dynan, and Douglas J. Elliot, "The Future of Small Business Entrepreneurship: Jobs Generator for the U.S. Economy." Brookings Policy Brief Series no. 175 (Washington, DC: Brookings Institution, June 2010).

with years of counseling, training, mentorship, and opportunities to procure government contracts. The opportunity to gain easier access to government contracts would be a boon to the small business sector. A program that allowed businesses to network with owners who have successfully navigated the process and local officials who give companies access to contracts would go a long way in helping these companies access this mostly untapped resource.

Company Needs Vary by Size: Marrying the Taxonomy and Support Structure

During the life of a small business, an owner will need access to all of the services listed above. However, depending on the size and stage of business, the specific needs will differ.

Company Size	Training	Access to Capital	Advisory Services	Networks
Microenterprise	Understanding types of capital	Small dollar loans	Technical assistance, including budgets and accounting essentials	Hubs, incubator-type work environments
High-growth start-ups	Sources and uses of capital, financial management and preparation for taking early stage equity investment	Angel investors, friends and family, specialized equity investors	Entrepreneurship coaching, sounding board for decision making, financial and operations management	Structured networking for start-up CEOs
$100K-$2M	Information on access to capital, uses of capital, banking relationships, and collateral	Working capital needs, loans from non-bank lenders such as CDFIs	Tactical challenges such as access to public sources of credit and basic operations management	Connections to regional entities that provide small business support; access to solution-oriented networking
$2M - $5M	Education on building value, management training, and information on effective decision making and uses of capital	Working capital, growth capital, SBA lending programs	Strategic sounding board for product strategy, marketing, supply and distribution; pre- and post-financing support	Peer-to-peer exchanges, networking for larger contract opportunities and new hires
$5M-$20M	Training on goals for enterprise value, building long-lasting companies and teams	Growth capital	Assistance with management and strategy choices, rebranding, identifying business weaknesses, renewing focus or changing strategy	Business development, strategic relationships, larger network for equity capital and making key hires
$20M-$50M	Focus on succession planning and building enterprise value	Varied capital needs, changing current capital structure	Strategy planning	Business development, CEO peer-to-peer, strategic buyers/partners, sources of equity capital

The table above is only a starting point for those working with small businesses. Companies in different industries, and with distinct missions will have different needs in each of the categories, but at a basic level, the support system structure laid out in this paper should provide appropriate guidance for investors, policymakers, and others working to help the small business sector grow.

Creating Jobs One Small Business at a Time: Applying the Taxonomy

It is not enough to put forward a taxonomy without practical suggestions for program and policy design and implementation. There are numerous organizations throughout the country working to provide services to small business. Many of these organizations and strategies have been created in the nongovernmental organization (NGO) sector and among CDFIs as they fulfill their mission to reach underserved communities and economically underserved individuals. However, it is too often the case that where best practices occur, the organizations that created them lack the capacity to go to scale. Not all of the organizations that exist today are equipped to succeed in this environment, so support must be directed to organizations selected for their ability to succeed at scale. Just as important as a common language is building the capacity of organizations and policymakers to succeed and scale their programs in three specific areas.

1. Finding good jobs and filling them
2. Investing in "near-bankable" small businesses
3. Providing advisory services

Finding Good Jobs and Filling Them

Given prolonged, high unemployment, we need to create hundreds of thousands of new jobs while retaining existing jobs. We must identify the nonprofit organizations in the United States that are extremely well suited to organize the available and soon-to-be available jobs and fill them with those seeking employment. The organizations that take on this task need a clear purpose, including a powerful brand identity that resonates with our diverse nation, bringing job seekers and employers together in all parts of the country.

We need a national job-building movement. Economists and policymakers are calling for large-scale job creation that goes beyond the infrastructure projects created by the Stimulus Act and imitates the job creation of New Deal programs. A program of this magnitude can only be implemented by the White House; and job-building policies that ensure revenue sharing among federal, state, and local governments are critical. Revenue sharing between the federal government and state and local governments as was done in the 1930s and 1970s will allow the agencies closest to the ground to determine the best opportunities for job creation. Success must be measured in numbers of jobs matched to job seekers. The data resulting from a national job-building movement, separated by categories of employers (including potentially the various types of small businesses) would be welcomed by federal economists and agencies looking for an evidence-based and replicable approach to job creation.

Investing in "Near-Bankable" Small Businesses

Many business owners are not approaching traditional financial institutions, but instead are turning to credit cards and other financing methods. Given that new, high-growth small businesses account for most of the net job growth in our country, the common goal for the treasury department, commercial lenders, and community leaders should be to grow the small business sector.[7] It is therefore in the common interest to move small businesses from "near–bankable" to "bankable" status.

Currently, CDFIs play a very small role in the overall lending industry. If commercial banks actually referred all of the loan volume in their portfolios to CDFI lenders, it would swamp CDFIs. Yet some CDFIs are well equipped to add capacity and to become either intermediaries regionally, or to become much larger nonbank lenders. To build capacity, these well-run and ready-to-grow CDFIs must increase their services substantially. This will require both operating capital and the capital to lend to and invest in small businesses. For this reason, the SBA can play a central role in small business financing, and should act on policies that allow more capital to flow to qualified CDFIs and allow them to participate directly in SBA programs. As of January 2011, the SBA had announced two new initiatives to increase SBA-backed loans to small businesses in these markets. Ideally, realistic standards for performance will be set to monitor the outcomes of the newly deployed capital. Regulations must be in place to hold CDFIs to good underwriting standards and to ensure that the money is reaching the businesses that need it most.

Providing Advisory Services

There are a few organizations that are well situated to expand their offerings in business advisory services. Organizations with models that are poised to grow have incorporated scalable features, including volunteerism, replicable templates for providing services, technology, and social networking components. Such an advisory support system for small businesses can be provided nationally using private enterprise/NGO innovation, and would be made even more effective with public/private partnerships. The SBA and the CDFI Fund are the appropriate entities to select organizations and support them in scaling up business advisory services. Success can be measured by outcomes such as business success and job creation.

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7 Small Business Administration Office of Advocacy, "Frequently Asked Questions."

Technical assistance, while equally important, is a different part of the advisory services spectrum. Mandating technical assistance through lenders is already part of the SBA's micro-loan program, but with the recent announcement of new programs, it is not required for the 7(a) Export Express Loan. The SBA should continue to integrate technical assistance within the micro-loan program and expand the requirement for advisory services to the Export Express program.

Conclusion

Building capacity and scale in organizations that provide invaluable services to small businesses are important steps in reviving our small business economy. As important as building capacity is creating a network of providers that small businesses can access seamlessly. The taxonomy laid out in this paper is the first step in creating this network. If service providers speak the same language, identify the needs of businesses in the same way, and work together to overcome current obstacles in lending, small businesses will be well on their way to a new era of growth and stability. For years policymakers and economists have thought of small business as one entity; their only distinguishing factor being employee size. It is time now to move past that way of thinking.

Throughout 2010, newspapers, journals, and magazines repeatedly asked the same question: how do we create jobs in this economy? In past recessions, small businesses have been the engine of growth, but that has not been the case today. Not only do small businesses provide jobs for nearly half of the U.S. population, but they also employ a disproportionate number of minority and disadvantaged workers.8 These are the individuals hardest hit by the recession, individuals who, when employed, spend money in their local communities. In creating a strong support structure for small business, we contribute not only to job growth, but to overall community economic development as well. A national problem calls for a national solution. It will take communication and collaboration between all sectors of government and industry, along with flexible and creative policy to create an efficient solution and expand the U.S. economy in 2011. The approach laid out in this paper is not the only solution to the small business financing and hiring crises, but it is an important first step toward a larger solution.

***Penelope Douglas** has worked extensively with small businesses and entrepreneurs. She is a co-founder of Pacific Community Ventures a twelve year old organization dedicated to providing both human and financial capital to businesses in California's underserved communities. A hallmark of Pacific Community Ventures is its Business Advisory Services, and 100's of volunteer executives have worked as PCV Business Advisors. Penelope has also served on the boards of directors of many small companies, non profit community based organizations and community development financial institutions. She is a pioneer in social enterprise and community development investing.*

***Lauren F. Dixon** has worked in local economic development for the past 6 years. She has worked with a diverse group of organizations including the San Francisco Mayors Office of Community Development, CalPERS, and most recently with InSight at Pacific Community Ventures. Insight is the thought leadership practice in high-impact investing, non-financial performance measurement and small business needs and development. She is an experienced policy analyst, focusing on impact investing, local small business support and asset building. Lauren holds a Masters in Public Policy from the University of California, Berkeley.*

8 Headd, Brian, Small Business Administration Office of Advocacy. An Analysis of Small Business and Jobs. March 2010.

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