U.S. Small Business Development Center Program: A Critical Critique

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A mission that never ends….

The U.S. Small Business Development Center [SBDC] program, like many other government funded programs, was seemingly created with a mission that never ends. Year after year appropriations of tax payer money are made to subsidize institutions of higher learning with little return on the national investment.

The evolution of the SBDC mission arguably began after the Second World War with Congressional legislation to establish college and university roles in small business counseling funded by federal grants. The Small Business Administration [SBA], the federal administrating agency for the current SBDC program was created in 1953.

It is interesting to note that the Service Corp of Retired Executives [SCORE] initiative was implemented in 1964 to provide a source of small business counseling without the need for neither substantial government support nor the bureaucracy to administer it. Aspiring small business entrepreneurs can receive free counseling from experienced retired and near-retired business executives

The SBA, with university encouragement, initiated a University Business Development Center concept as a pilot project in 1976. These centers would obtain grants funds to perform business assistance services similar to SCORE. The pilot project was apparently found to be successful and additional university centers were continuously added.

After some failed attempts, Congressional legislation was passed and signed in 1980 to establish the SBDC program and to furnish grant funding to institutions of higher learning to manage business counseling services within their states. The recipients of the funds quickly formed a national association to, in part, provide an ongoing mechanism for continuous annual funding lobbying.

Currently the SBDC program is authorized by the Small Business Act, Section 21 [c][3][T] and Section 27. Title IX of Public Law 105-277 and Public Law 108-447.

The fiscal year 2013 appropriation for the SBDC program was $110,500,000.

Funding opportunity….

Each year the SBA announces a" funding opportunity" for colleges and universities to participate in the agency's largest matching grant funded program. Sixty three grant recipient organizations known as Lead Centers [at least one in each state, four in Texas. six in California, the District of Columbia, Puerto Rico, Guam, Virgin Islands and American Samoa] are currently granted federal funds. The Lead Centers subcontract with local SBDCs within their jurisdictions.

The stated purpose of the program is "to provide high quality business and economic development to small businesses and nascent entrepreneurs [pre-venture] in order to promote their growth, expansion, and innovation to increase productivity and to improve management".

However, since payment of grant monies to the Lead Centers and local SBDCs is primarily based on counseling time and not on measurable performance in achieving the stated purpose, SBDC administrators and counselors have learned that the funding incentive is to generate client contact hours.

The SBA does require reporting of economic development performance data such as jobs created but there is no funding goal attached to the numbers. Information and statistics on other performance indicators are produced by SBA and SBDCs from sample surveys and administrative reporting but are not used in determining the amounts of grant payments. The only apparent use for the data is to present to Congress and state legislators when lobbying for inclusion in annual budgets.

Billable hours, dreamers and schemers….

This subsidy scheme works through a system of grant contracts with Lead Centers who in turn pass on the grant payment requirements through subcontracts to local SBDCs. The Lead Center universities, in effect, buy billable client counseling hours and matching fund calculations, often creatively calculated, from SBDCs then bundle and sell the data to SBA.

A recent request for proposal from a university to create an SBDC to serve two counties provides an example of the SBDC program operation. The university Lead Center offers to pay $415.33 in SBA funds for each business client receiving counseling, $71.04 in SBA funding for each hour of counseling and $1,026.22 in SBA funds for each client receiving more than five hours of counseling. Responsibly, additional funding can be earned from other more beneficial performance measurements.

The billable counseling hours can be magnified by generously adding preparation time.

This payment scheme makes clients, referred to in the industry as dreamers and schemers, valuable customers. Profits can be made by recruiting clients that have no hope of starting a business but will continue to return to counseling sessions to achieve an unrealistic business dream, or from clients who mistakenly believe that a personal government grant will result from participating.

The matching fund argument….

Annually, Lead Centers and SBDCs argue for funding appropriations in state budgets. Similar to the appropriations lobbying tactics used by other government matching fund recipients, the primary argument is the loss of federal funds if the state fails to budget the required funds. Correspondingly, Congress is informed that state and other matching funds will be lost without inclusion in the federal budget.

There may be justifiable reasons to spend tax payer money for subsidy programs, but availability of matching funds should not be the major consideration.

What if the program is terminated….

The termination of the SBDC program will probably have no measurable impact on the economy. The immediate effect will be the loss of employment for some university and SBDC staffs, but the capable employees, and there are many in the SBDC program will find other employment or utilize their SBDC experience to start businesses. Importantly more than $220,000,000, excluding bureaucracy costs, will be freed up in federal, state and local budgets which could be used to more effectively stimulate the economy and create jobs.

Small business assistance will not end with the termination of SBDC grant funding. The 348 local SCORE chapters will continue to provide small business counseling funded by corporate sponsorships and without tax payer subsidy.

An almost uncountable list of government business assistance will still be available such as the SBA Office of International Trade, Export Trade Assistance Partnership, U.S. Export Assistance Centers, Manufacturers Extension Partnership, Certified Development Companies, Small Business Investment Companies, Procurement Technical Assistance Centers, Minority Enterprise Development Program, Office of Native American Affairs, Industrial Resource Centers, various rural development programs and others. Also local and regional economic development organizations and chambers of commerce support business growth without federal subsidy.

More accountable and more appropriate performance measurements….

If the SBDC constituency continues to be successful in convincing Congress and state legislators to fund this university subsidy scheme, appropriators should at least demand more accountable and more appropriate performance measurements as a condition of funding.

The best grant payment performance measurement during the current economic condition is job creation. A payment amount based on each verifiable job created would have a far greater economic impact than the existing billable hour's system. If SBDCs are unable to assist private businesses and increase employment they should not expect tax payer financial support.

Sources:

1. Author's experience
2. SBA FY/CY Program Announcement for Renewal of the Cooperative Agreement for Current Recipient Organizations

3. Request for Proposal, Small Business Development Center Sonoma and Marin Counties issued by Northern California SBDC Lead Center, Humboldt State University
4. “A Brief History of America’s Small Business Development Center Network”, America’s Small Business Development Center Network

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