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Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

"Job creation and incentives for both small business and the prospective entrepreneur"

LOCATION: Room 319
State House
Trenton, New Jersey

DATE: September 27, 1993
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Jack Sinagra, Chairperson
Assemblywoman Harriet Derman, Vice Chairperson
Senator John O. Bennett
Senator Peter Inverso
Senator John H. Adler
Assemblyman Jose F. Sosa
Assemblyman Virginia "Ginny" Haines

ALSO PRESENT:

Peter R. Manoogian
Office of Legislative Services
Aide, Joint Legislative Committee
on Economic Recovery

Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, CN 068, Trenton, New Jersey 08625

SENATOR
JACK SINAGRA
Chairperson

ASSEMBLYWOMAN
HARRIET DERMAN
Vice-Chairperson

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New Jersey State Legislature

JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

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COMMITTEE NOTICE

TO: MEMBERS OF THE JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

FROM: SENATOR JACK SINAGRA, CHAIRPERSON
ASSEMBLYWOMAN HARRIET DERMAN, VICE-CHAIRPERSON

SUBJECT: **COMMITTEE MEETING - September 27, 1993**

The public may address comments and questions to Peter R. Manoogian, Office of Legislative Services or make bill status and scheduling inquiries to Sharon Constantini, secretary, at (609) 984-7381.

The Joint Legislative Committee on Economic Recovery will meet on **Monday, September 27, 1993 at 10:00 AM in Room 319, State House, Trenton, New Jersey.** The committee will discuss the topic of job creation and incentives for both small business and the prospective entrepreneur. Mr. Bruce Coe, President of the New Jersey Business and Industry Association, and other representatives of the business community have been invited to participate with the committee in the discussion of this topic.

The discussion will deal with those programs which have received outstanding reviews by members of both the private and public sector and have been successful in other states. Of particular concern are venture capital initiatives and small enterprise lending, with a focus on how these policies have stimulated economic recovery and job creation in other states.

Issued 09/22/93

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SENATOR JACK SINAGRA (Chairperson): Good morning, everyone. First I'd like to thank all the Committee members who came this morning. As you know, we're in a strange part of our year, and they've taken the time out to be here because they realize how important economic recovery is.

This morning we're going to concentrate on two areas that actually go together. We're going to talk about downsizing -- those people who have been downsized out of their companies -- what we need to do to help them both find positions, and what we can do to help them as far as capital. And we're going to talk about small business and what we can further provide capital for that next step of growth. We know small business provides most of the jobs in the State of New Jersey.

With that, I'd ask Bruce Coe to start out.

BRUCE COE: Thank you, Senator. Good morning, ladies and gentlemen. I'm here to say I'm delighted that you're holding these hearings. I'm pleased with the things that have already happened this year, things like ECRA reform, things like the tax changes -- the six tax bills that passed. I think that politically we're all aware of the sensitivity about what are we going to do about all the unemployed people, and what are we going to do about downsizing.

Just to put that in perspective: The Fortune 500 today employ 25 percent fewer people than they did in 1980. That's a remarkable number, 25 percent fewer than 1980. We, as you know, publish a magazine which does an in-depth survey each May of the employment of the 100 largest companies in New Jersey. If you look at that over a 20-year basis -- in other words, let's go back to the 1975 period -- you see one continuing trend: growth, but fewer employees -- in the aggregate, fewer employees.

It all kind of came out to me when I heard John Young, the Chairman of Hewlett Packard. He gave a talk about four years ago, and he spoke about how Hewlett Packard in 1990 was producing more product with fewer people than they were in 1985, and that by the year 2000, they would be producing three times what they were producing in 1990, but they would be doing it with fewer people in the year 2000 than they employed in the year 1990.

That tremendous emphasis on productivity in the manufacturing sector nationwide has done something remarkable. It's maintained manufacturing at around 23 percent or 24 percent of the gross domestic product for the last 15 years. In other words, we don't realize it, but America still is competitive with manufactured products, and it has remained the same segment of the GNP, but with much fewer employees.

It's my personal opinion, although I can't statistically back it up, that all of the job creation we've had in recent years in the United States has come from small- and medium-sized companies. That emphasis on productivity that's been true in the manufacturing sector has now spread to the service sector. Productivity in the service sector in the United States in 1992 increased by 1.2 percent. That's the biggest increase in productivity ever recorded in one year in the United States in the service sector. Whether it's Prudential trying to figure out how to produce more with fewer people; whether it's First Fidelity Bank trying to be more productive with fewer people; whether it's Wal-Mart trying to be more productive with fewer people, the name of the game is we can do more, but we could do it with fewer employees.

So it comes back to, in my opinion, what can we do for small companies, for entrepreneurs, that will cause them to be more prosperous and hire people. That, to me, is the number one political issue this country is confronted with over the next several years: How are we going to bring down the rate of unemployment?

I have two brief suggestions: Suggestion 1, there are lots of good ideas out there, and we're going to hear about different ones. One is that we need to do more to encourage entrepreneurial skills. In that context, there are lots of thoughts of how it might be done. I personally would like to see you perhaps suggest that wouldn't it be nice if we could convene a group of five or ten people who are knowledgeable in this area to study it in-depth.

There are a whole bunch of organizations in New Jersey that are heavily involved in entrepreneurial skills. There is one that has had great success up at Fairleigh Dickinson, the George Rothman Institute of Entrepreneurial Studies. It was Bernard Tenenbaum who was the founding director of that institute. Interestingly, Bernard Tenenbaum has since left and has been hired by Russell Berrie & Co., which is a very successful New Jersey corporation which actually has $100 million of excess capital they plan to invest in the venture-capital sector. It was Bernard Tenenbaum they hired to manage that portfolio investment for them -- a very sophisticated gentleman.

There are a bunch of other entrepreneurial groups in New Jersey. The New Jersey Entrepreneurs Network, The South Jersey Entrepreneurs Network, the New Jersey Entrepreneurs Forum, and it goes on and on and on.

A lot of people with high skills-- We've been reading in the paper how Johnson & Johnson is letting people go. Mobil Research is letting people go right here in Hopewell, and these are highly educated, highly skilled people. There they are, faced with, "What can I do?" Many of them have the enormous talents, but they aren't quite psychologically ready to found their own business. Not uncommonly, they'll need some start-up capital. Not uncommonly, they may have some savings, some significant equity of their own that they could invest. Maybe they've got $50,000 or $100,000, but maybe the start-up costs are $250,000. I'd like to see a group study -- people of this type -- study their needs.

I'd also encourage them to take a look at franchise operations. The most successful franchise operations in the United States run 97 percent to 98 percent success ratios, and whether they're called McDonald's, or whether they're called Mailbox Etc., whatever, they employ a lot of people, and they have learned how to do it. They don't violate the Ten Commandments of founding a small business. I mean, they are well-capitalized; they do have good site location, etc.

I think that we need to encourage more people to at least network with entrepreneurs. I would like to see every person in an unemployment office have to make a decision, "Do I really want to try to get a job working for somebody else, or what are the alternatives about forming my own small business?" So that's idea Number 1.

Idea Number 2 relates to venture capital. Venture capital in terms of how can the State get involved is a subject that has been studied twice in the last 10 years. One was backed by a subcommittee of the Commission on Science and Technology. The Chair of the subcommittee that studied that was a gentleman named Mort Collins.

Mort Collins heads up a venture-capital operation on Nassau Street in Princeton. He is one of, by the way, nine capital-venture pools located in Princeton, New Jersey. You can walk within two blocks of one building and you can find five of them. They're running $100 million here, $50 million there, $150 million there, and so forth.

Mort Collins headed that up. They did a thoughtful study and concluded that government generally, and certainly not State government, could never make the right decisions about what investment capital investments might I make, but felt that with private-sector participation, the State could well do it.

They made the mistake of recommending pension funds as a vehicle. It's true that the State Pension Funds are a defined benefit, and if I were a retiree I shouldn't worry, because the benefit is defined and it really doesn't make much difference whether the assets go up by 7 percent or 15 percent per year. But it did arouse significant union opposition, and it failed.

More recently, we're all familiar with the attempt by the EDA to put up $2.5 million in efforts over a one-year period to get another $22.5 million to have a $25 million pool. In my opinion, that project wasn't as well-conceived as it might have been.

Having said that, the question is what, if anything, can a state do? My suggestion is one I would like to be reviewed by others -- this gentleman, Mort Collins, and several other people -- to study these ideas one more time.

My thought is really a simple one. One, it's based on the fact that State government isn't properly equipped to make the venture-capital decision, but it could buy the last 25 percent. In other words, if somebody is raising $5 million, and they've already raised $4 million, buying that last 20 percent-- And it could buy it with the proviso that the company locate in New Jersey. It may already be in New Jersey, but it may be an entrepreneur who has got a great idea, who is raising the venture capital, who might move into New Jersey.

There are companies in New Jersey who have had enormous success with venture-capital funds. I'll tell you what was the most exciting thing that's happened to me in 1993: Every year, "Income Magazine," Merrill Lynch, and Ernst and Young sponsor something called the Entrepreneur of the Year Award. It's a national competition that has been going on for eight years. The finals will be held in California this November. There are 10 categories of entrepreneurs. Similar to the Miss America Contest, each state has its own contest for the 10 winners from New Jersey to go to California for the national finals.

I was a judge this year; I was asked to be a judge. I wasn't the only judge. Irwin Lerner of Hoffmann-La Roche and several other people were judges this year. I went to a room and met all of these people, and in the room you could feel the electricity, you could feel the excitement. These were extraordinary, talented, exciting people, and the successes they have achieved make you feel a lot better about the economy and about the future. But they all had the same situations when they were starting: "How do I raise some capital to get this thing going?"

Had all of you been there, you would have been as excited as I, and I think you would have been supportive of, "Gee, we've got to encourage more people -- more people who want to take some risk, more people who have great ideas, more people who think they can make it."

So I would encourage the State to research that. I would encourage them not to look at pension funds. That's a political error in my opinion.

But it doesn't take a great deal of money. Both of these programs I'm talking about, whether they're entrepreneurial, capital and networking encouragement, maybe some EDA loan guarantees, or ones that are venture capital, can be done with, in my opinion, de minimis amounts of money.

For example, let's take venture capital: We could put up ground rules that the State would invest no more than $1 million; that it would be no more than 20 percent. It could be 10 percent -- the last 10 percent, but no more than 20 percent. We could appropriate $10 million and see what happens over the next year or two with that pool.

Similarly with the EDA -- the very successful, by the way, Economic Development Authority -- which has really done spectacularly well for the last couple of years. It's the largest EDA in the United States of America. But they've done a marvelous job of both direct loans and loan guarantees, and a lot more could be done with entrepreneurs.

Thank you very much for having me with you.

SENATOR SINAGRA: Mr. Calkins?

BARKLEY CALKINS: Thank you. My name is Barkley Calkins. I very much appreciate the opportunity to be a part of this hearing on job creation and incentives for the small entrepreneur. I think the topic is an important one, and indeed, timely. For the last three and a half years I have been a small entrepreneur operating a management consulting business out of an office in my home. Prior to that, I was a Vice President with J.P. Morgan & Co. for some 25 years. That's a major commercial bank. For much of my career there, I was involved in financial analysis. I think much of what I want to say to you this morning reflects that perspective. For better or worse, I'm endowed with some sympathy for the banks and the dilemmas they face in trying to lend to small start-up businesses, where assets are likely to be minimal, and there may be a lack of a track record.

I still recall being a part of the process of winding down a small business investment company that Morgan started perhaps 30 years ago in the aftermath of much of the inner-city disturbances of the '60s. As we wound that down, I think we looked and realized that probably we weren't terribly good at that kind of investing, and that if we were going to be in it at all, we needed to find intermediaries to work with us on alternative approaches. I think what I want to say to you this morning will reflect my history as a financial analyst within the financial community.

Given the concern for job creation in the State, I think it is wise that we are focusing on small business. Based on information from the SBA, very small businesses -- those defined as those employing less than 20 people -- already account for something like 20 percent of total employment in the State, and about 20 percent of total payroll. Small business, as defined as those employing less than 500 people, account for more than half of total employment and fully half of payroll. I think we can say that however we precisely define small business, it is already a major source of income and employment in the State. I think, then, we can further say that anything that will strengthen that small-business sector has important implications for job creation in the State.

It is, as Bruce has clearly indicated, the growing numbers of individuals formerly employed by large companies and whose positions disappeared as a result of corporate mergers, downsizing, early retirement -- these individuals are growing in numbers. They have specific skills; they have a strong work ethic. This is a growing resource of tremendous potential importance.

I am aware that the financing of small businesses, particularly obtaining bank credit, is a special challenge. The small businesses traditionally lack assets and a proven track record. Government programs such as those of the SBA have often proven fraught with problems of various sorts -- fraud at times -- but general problems of bureaucratic overload. I think that, as Bruce indicated, we are well-advised to consider issues of financial resource allocation and risk management -- probably best be looked at as problems of the private sector.

I think that while increasing access to finance for small businesses must be among the issues that we would address as a part of any job creation strategy, my argument to you this morning is that it is important to see to those financing needs in the context of the whole web of interrelated forces that broadly define the investment climate for small business. I think when we look at the total investment climate, we will inevitably find ourselves thinking not only about financing needs, but also nonfinancial needs. Small enterprises will often need new or expanding markets for their goods and services. They may often need technical assistance in many forms. They clearly need to find supportive networks.

As a small businessman myself, I've been very aware of how prone I am to feeling isolated and alone, and I see one of the most important things going on is that small businesspeople everywhere are finding and developing supportive networks. This whole process needs to be encouraged. Small businesses need the opportunities to find prospective partners for new business ventures. They need a reliable transportation and communication infrastructure.

So there are a whole range of nonfinancial needs, and I think we err if we look only at how do we increase the access to finance without considering how do we make the whole investment climate more supportive for small business.

As a first step toward creating this investment climate of which I speak, I would like to recommend to this Committee that they consider the possibility -- and I believe this would build on what Bruce is saying -- of establishing some kind of consultative process or dialogue that would involve high-level representatives of State government, of the business community -- both the financial and nonfinancial sectors -- and relevant organizations. There are nonprofit organizations -- our universities and others -- and all other kinds of organizations that are specialized intermediaries that can work with banks or other purveyors of finance, but also with small businesses to develop the systems and the networks that they need to be successful.

I think the intent of such a dialogue could be to engage each of those three sectors -- government, business, and the specialized intermediaries of various descriptions -- in a process that would result in an action plan that would have as its intent the increasing of access to investment capital, bank credit, and other sources of finance on the part of small enterprises generally.

To give a process such as this a focus and a manageable scope perhaps it would be appropriate, before the process even begins, to identify certain industry segments that we would wish to consider the priority segments; then to attempt to inventory the most significant financial and nonfinancial needs of those sectors; and finally, to consider the possible roles for interested governmental and nongovernmental bodies.

I think a process of this sort would provide the ideal opportunity to inventory and assess the supportive structures that are already in place -- incubator programs, various kinds of management assistance programs, the supportive networks that already exist -- inventory and assess all of that. We could identify the important service and financing gaps, and suggest appropriate programs or strategies for addressing those gaps. And we could define the appropriate public policy framework within which to assure the growth of the small business sector.

Particularly regarding this last point, and again, perhaps reflecting my bias having worked in a bank and having some sympathy for banks and the struggles they have in assessing small business, I would suggest that efforts to engage the resources of the banking sector and the venture capitalists -- the private sector, generally -- must emphasize a voluntary approach; that we would need incentives. A pure free-market approach, I suspect, would not work, but at the same time I think we need to be careful of really clubbing the financiers into investing in areas where they are not comfortable, where they have not been able to develop a comfortable notion of risk and risk assessment.

So my recommendation this morning is to consider this initiating a consultative process or a dialogue that would work toward this working concensus, or an action plan that would intend to promote increased investment in small business generally and would address the whole of the investment plan -- the financing needs as well as the nonfinancial needs.

I must apologize. A colleague of mine, Jeffrey Ashe, was going to come down from Boston this morning to tell you about a very interesting program that is going on presently in four northeastern states -- Maine, Massachusetts, New Hampshire, and Vermont -- called Working Capital. But he was caught in traffic en route to the airport and missed his flight, so he can't be with us.

I will tell you just very briefly what Working Capital does. It is actually organized as a nonprofit organization to help increase the access to bank finance on the part of very small businesses. Their particular methodology is to encourage those very small businesses to come together into what they call business loan groups. The typical business loan group may be four to eight small proprietors of very small businesses. By working together, by taking a joint responsibility for the credit, one effect is to improve the quality of the credit. The repayment rates on the loans to these business loan groups are presently running virtually 100 percent. But they also have the effect of creating a supportive dynamic among the participants in the business loan group, so that the businessmen and women who are participating become more effective, better businessmen and women because of their participation in this supportive structure.

Working Capital, in effect, serves as the intermediary between the banks and the borrowers. From the banks' point of view, they let Working Capital simply take responsibility for issuing the credit. The banks put up the money, Working Capital allocates it among the members of the business loan group. The banks will monitor very closely the repayment rate to make sure the whole program is working.

It's a very interesting concept. It is working extremely well in those four northeastern states that I mentioned. It is based on a lot of experience, much of it international -- it's the international experience being brought to this country -- but a very interesting model that I'm convinced would have replication potential in New Jersey. Perhaps there will be another time when Jeff might be here to talk about it.

SENATOR SINAGRA: Thank you.

Mr. Bosma?

ROGER BOSMA: Good morning. My name is Roger Bosma. I'm the President of Independence Bank. Independence Bank is a small community bank located in Bergen County, with headquarters in Ramsey. We have eight offices; seven are in Bergen County and one is in Passaic County. We have 150 employees, and we consider ourselves to service both the consumers and the small businesses.

What I would like to do this morning is to break it down into three areas: Tell you a little bit about what Independence Bank does and what other banks are doing in the community as far as the Community Reinvestment Act; to share with you some of the frustrations bankers have when faced with an entrepreneur who comes in with a concept, a plan, or an idea, and we're unable to finance that idea; and also to encourage the State to develop those ideas and concepts and plans so that it can stimulate the economy and create jobs.

There are times when bankers do not know what the community wants. We are by law required to meet the needs of the community, but there are times we're not really sure what the community needs. We at Independence Bank have developed a questionnaire that we have sent out to our customers and to our noncustomers located in Hackensack, Hawthorne, and other areas where we have solicited their response and send it back to us. We ask them if they have ever asked for credit at our organization, whether they've been turned down for credit, and what needs does the community have that Independence Bank has not been meeting. Unfortunately, the response has been very, very poor.

We've also been involved in a mentor program where we meet with individuals and also nonprofit groups, where we assist those individuals in preparing financial packages that bankers would require to review and analyze the financial packages for a borrower. This has been successful, and we've been doing it in the Hackensack marketplace.

One of the things that the banker is frustrated at is when someone does come in with an idea, and they might be unemployed or disemployed or underemployed. They want to bring that plan or that idea or that concept to fruition and create a business, and they need a borrowing requirement for that. I've been in banking for over 30 years, and I know in order to grant a loan, I need to look at the cash flow and I need to look at collateral. If I do not see the cash flow and I do not see collateral, I can't grant the loan.

What happens most of the time if someone has a plan and they don't have the financial backing is, they would have to use the equity that they have in their home, or they would have to liquidate the securities they might have built up over the years, but still they would not have a demonstrated cash flow. They would have an idea; they would have a budget; they would have projections. But over the last few years a lot of budgets and a lot of ideas did not meet with their plans, and the banks have taken a beating, so bankers today are reluctant to move into entrepreneurial lending where there is not a proven history on which to base the financing.

Regulators have looked over our books very, very carefully. We have discussed with classified loans and criticized loans. We have talked about reserves not being adequate. We've seen our associates in other banks go out of business because of credit not granted properly. We are concerned about that, and we have turned a conservative ear.

The Governor was concerned about it as well, and he established a Credit Crunch Task Force. That Task Force presented its findings a week ago Friday. The Chairman of that

Committee was Geoffrey Connor, the Commissioner of Banking. They have made a number of recommendations. Their list is nine long. I'll just briefly go over them.

* One is to simplify the regulatory process.
* Two is to amend the CRA so that it encompasses the entire State, not just specific trade areas.
* Three is to support the President's Community Development Banking Act.
* Four is to support conversions of thrift institutions that the RTC has closed down into community development banks.
* Preserve the dual banking system.
* Enact State and Federal legislation limiting bank and thrift directors of their liability.
* Continue to educate borrowers.
* Continue to expedite commercial foreclosures.
* Enact legislation for additional sources of credit to New Jerseyans.

This does not all apply to the subject we're talking about this morning. There is a perspective from the bankers. Mr. Calkins talked about the reluctance of bankers and the bankers being beat up, and that is what's happened over the last few years.

President Clinton developed a plan where the best run banks could give character loans -- nondocumentation loans -- and that's the area where these entrepreneurs would fall into. I was at a meeting last Monday in Boston of Robert Morris Associates. There was a panel of regulators there from the Comptroller of the Currency, the FDIC, and the Federal Reserve Bank. They stated that the new powers that the well-run banks have are not being utilized. The bankers are still concerned that the regulators are going to come in and review the files to look for the documentation, to look for the cash flow that is going to be needed to pay back loans, and it's just not there. So those powers are not being utilized.

I would encourage the State to be more involved. I would echo what Bruce Coe said about establishing a task force to look into it. The EDA is an excellent program. Independence Bank has worked very closely with the EDA, and we encourage expanding those powers and getting governmental support for the entrepreneurs who have those concepts, who have the plans and have the ideas that can be brought forth and can be brought into the employment area.

Thank you very much.

SENATOR SINAGRA: Thank you.

Mr. Donlan?

K E V I N D O N L A N: My name is Kevin Donlan. I'm with Drake B. Morin Incorporated. We are the world's largest postplacement service. We have three offices here in New Jersey, and quite a bit of experience in working with the unemployed -- executive managers and employees coming out of corporations.

Over these years, in addition to job search training and support, one of the things we've done is to also offer our candidates the opportunity to enter into a program which prepares them for an entrepreneurial venture -- starting a business, consulting, or franchising. These programs are what I'd like to talk to you about this morning, to give you a sense of what we have learned and share that experience with you.

As background, we've become more convinced at Drake B. Morin that business formation for some of the candidates that we're talking to and dealing with is maybe their only opportunity. As New Jersey industry has downsized, right-sized, reengineered, and restructured, one of the things that we are noticing is that some of the jobs -- literally layers of management jobs, supervisory jobs, professional jobs -- are disappearing. This was not so in previous recessions. Usually we saw those as temporary dislocations. When business would pick up, those jobs would return. Our fear right now is, in many cases, this might not be the case.

Therefore, the issue for many of the candidates we're dealing with are three: One, retraining for new skills; two, industry or functional transfer of their current skills; and three, starting or acquiring a consulting practice or a business.

Let me take a few minutes just to describe our program, and along the way discuss some recommendations we might be able to share with you from our perspective. The entrepreneur program that we've worked now for over eight years is delivered in two basic formats. One, and the most common, is a group of eight to ten potential entrepreneurs working with each other under the guidance and leadership of an experienced counselor. Individual programs are also available where the candidate would work one-on-one with the consultant or counselor.

The entrepreneurial program starts with a self-assessment process. This is key. Our experience is that not everyone coming out of a corporation, no matter what their position, is ready to go into a small business. We believe it's critical to help that candidate identify those characteristics, traits, interests, and motivations which are going to be successful in their new enterprise. Through testing, interviews, or self-assessment exercises we try to identify those traits and characteristics that we have found in research are critical to the success of the small venture.

Those factors include such things as good health, endurance, objectivity in interpersonal relationships, never ending sense of urgency, high levels of self-confidence, broad practical interests, and high degrees of self-discipline. In addition, the program stresses the distinct difference between entrepreneurial life and their former corporate life in terms of interests and life style, its impact on the family.

This leads us to our first recommendation based on our experience. The Committee should consider some method of self-assessment before considering grants, loans, and all the financial programs that I've heard so far this morning. All the financial seed money can lead to failure if the individual doesn't have the basic instinct and the skills of the successful entrepreneur. Without this self-knowledge, they may well risk their homes, their savings, borrowed money, and their credit-worthiness in the future.

Let me make one additional comment here: We don't see a failure if a candidate, after going through the self-assessment process or, in fact, the whole business plan program -- if the person decides to leave or withdraw. As long as it's a reasoned decision and not one that's strictly emotional, it's probably for the best. Without a strong commitment and self-confidence, a venture of any significant size will probably fail if the individual does not have that kind of support. The training program itself is an excellent way for the candidate to test their commitment. He or she can vicariously live the experience of the business.

Our self-assessment process once completed, the candidate begins the process of research and writing a business plan. In these groups they are valuable incubators where ideas and concepts can be tested. Coming from different fields and industries and backgrounds, the group brings significant experience, expertise, and advice to each of the participants.

The business planning seminar begins with the development of a business charter. This is a concept statement defining the business, its mission, its uniqueness, and its competitive advantage. It's evaluating the concept that the group studied the demographics, social trends, government and economic trends which will either drive or hinder that business. They examine the source of the idea, be it experience, a hobby, interests, or just dreams. This leads to testing by the group, refinements, and in some cases, total restatement or even withdrawal. The logic and rationale of the written business charter must go beyond the hunches and gut feel in order for it to be a viable venture.

In some cases, the candidates we're dealing with don't have a specific idea in mind, but have a great need and desire to be independent and start a business. It's at this point in the business charter session that we would help them develop those ideas.

Let me make a second suggestion for you at this point, again, based on our past experience. The Committee should probably think about in any future lending programs or financing programs that the individuals be required to have a written business plan; that they go through a training program somewhat similar to what we have described so far this morning.

We see a lot of deeply held ideas nurtured over many years developing an emotional attachment and momentum of their own that may not really hold up to objective scrutiny or the realities of the marketplace. The process of writing a business plan will often prevent those failures before they happen, and assist the bankers and financing people to know they are dealing with someone who has thought out the plan.

The second phase of the program involves market analysis and competitive reviews. The object of this session is to set up a first-year revenue and income statement. Whether using formal surveys, informal conversations, observation, or available market data, the entrepreneur is challenged to test those assumptions and the reasonable estimates of revenue and profit.

The last phase involves the development of a well-conceived, cost-effective marketing plan; how the product or service will be advertised, distributed; their unique selling proposition, pricing, warranties, and promotions. The experience of the consultants, again, and the participants is invaluable to help sharpen that plan.

Basic financial statements are studied and the realities of cash flow and the cost of inventory are estimated. Often here we use experts to talk about these more financially technical areas, but they do learn basic accounting statements and concepts in very practical terms. This module concludes with each candidate preparing their first-year income and expense statement, cash flow, and balance sheet.

Next the group works on individual operating plans: facilities, locations, equipment, computers, telecommunications, utilities, insurance, and many of the other details of producing a product or service. These modules are often taught by an attorney, and they include such things as the organizational structure -- whether that be a partnership, independent proprietorship, chapter S corporation -- the legal form of the business -- regulations, and taxes.

After each module the individual is required to share that module with the rest of the group and the consultants. This again is invaluable in the refining of that program. When they complete the program, the entire business plan is then presented to the group.

What has been our success to this point? It's literally impossible to track the hundreds of candidates that have gone through this program, both nationwide and here in New Jersey. In our Parsippany office alone, we have been able to document over 40 business start-ups or acquisitions since 1987. Eight of these are full-time consulting practices. They range from gas stations, dry cleaners, automotive shops, a $20 million generic pharmaceutical company, and more recently, a small-niche mortgage bank.

Our best estimate is they probably generated somewhere between 150 to 200 new jobs. Our other offices around the country tell me they share similar statistics. Again, these are the only ones we've been able to document. We believe that, conservatively, the actual number of new businesses might be two to three times that.

Finally, let me share with you four of the issues faced by our candidates in starting a business that could be helpful to you as you address this most important matter.

First is financial risk. The greatest single deterrent to the candidates we're dealing with in starting a small business is fear of financial loss. They've spent their entire career in a company environment with regular paychecks and benefits. While in the past few years this perception of security may have been shaken, it still seems more predictable and more secure.

Also, often our candidates are going through a very high expense cycle of their life: college tuitions, heavy medical expenses, as well as sometimes caring for an elderly parent heighten their aversion to risk. Here you might consider some educational programs that realistically deal with the risk; for example, it could show potential first-time entrepreneurs that the process of business planning can remove a lot of the uncertainty.

Just over the weekend I read that a professor at the New Jersey Institute of Technology has identified that the most common figure -- 62 percent of all businesses fail in the first five years -- is probably not true. His documentation indicates it may be as low as 18 percent, because the numbers we used to compute those losses included retirements, acquisitions, and other forms of closing the business which were not necessarily failures.

The second recommendation, obviously, is start-up capital. I'll defer to the other members of this panel who are much more aware of those situations. But let me address one question that the individual coming out of corporate life, whether they be a middle manager or executive -- sometime seen as not needing financial assistance, and that's purely relative. The person coming out may have a higher life style and higher ambitions, but they're just as unwilling to risk what they have taken as a person who has not attained that level.

Working capital: This is where most businesses in our experience fail. This is true as you look at the literature. Borrowing against inventory and accounts receivable are more often the areas where initial entrepreneurs have difficulty. Most research, again, indicates this is where the businesses fail. They had sufficient start-up capital; they were not able to expect or raise the working capital.

Finally, ongoing support: There is great need, as we heard this morning, for entrepreneurs to associate with one another, share their experiences. We would very much recommend any program that would allow and support the coming together of entrepreneurs to support each other in the venture.

In summary, if there was one individual idea I could select, and we could select from our experience, it would be to initiate and support programs, and provide the training necessary to the development of thorough, formal, yet practical business plans. I think this will greatly increase the return on any financial incentive that you might make.

Thank you.

SENATOR SINAGRA: At this point I'll ask the Committee members if they have questions. And this is purely a panel; you don't have to address it to any specific person. They can answer it as a panel having to do with the topic. I'll start to my right and go in order.

Senator Adler?

SENATOR ADLER: I don't have any questions, thank you.

SENATOR SINAGRA: Okay.

Peter?

SENATOR INVERSO: Yes.

Bruce, I'm familiar with an effort in Massachusettes several years ago for the state to infuse some venture capital into the Massachusettes economy. They created a company which was independently incorporated and funded by the state. They were to seek outside financing to match the state's venture-capital dollars. I don't recall the name, but I'm just wondering, do you have any information on how successful such ventures have been in terms of return on the real dollars back to the state economy, as opposed to the dollars that were anted up to provide the venture-capital risk dollars from the state?

MR. COE: Yes, I'm familiar with that Massachusettes venture-capital operation of which you spoke. That just reminded me, by the way, that both Massachusettes and the State of Washington have been experimenting with entrepreneurs with waivers on unemployment insurance, where somebody can take down some of their unemployment benefits at the beginning and use those as part of their start-up capital needs. Based on the early results of that program, that's been quite successful.

Venture-capital investing, I don't have the specific results from Massachusettes, although I can get those, Senator Inverso. I spent about 20 years on Wall Street, and one of the things we did was venture capital. The way venture capital works is, you find 10 great companies that each one of you founded, and you give each one a million dollars. Normally within the first five years, three have gone out of business, or at least they're floundering badly. Nothing has matured to the point where you can turn to your investors and say, "Aha, you've now made tenfold your investment." That doesn't happen in the first several years.

But job creation happens, and over the long term I personally think venture-capital investing, if done by sophisticated, professional people, can yield excellent results. So in saying that a state should create a pool, I wouldn't view that -- whatever it were, $10 million -- as a pool that will never come back. I would hope that over a 20- to 25-year time frame, we might well have invested in--

Out of the 10 companies, by the way, in this Entrepreneur of the Year Award, three of them have gone public in 1993, and had we only invested in them, we would have made our $10 million back on one investment alone. You don't see much in the first few years. You have to be patient, but those that are successful do extremely well.

The key to it is great money managers. Kind of like great artists or great basketball players, there really aren't very many of them. There are a lot, however, who have dramatic long-term records that prove their success, and we're fortunate to have some of them right here in New Jersey. I believe some of them -- that one gentleman I mentioned, Mort Collins' firm, with a professor of Princeton University -- got intrigued by venture-capital investing and has done extraordinarily well. He's actually the past President and Chairman of the National Association of Venture Capitalists. He's one of many people here in New Jersey that if we were to form some sort of a task force to bring a lot of knowledge to bear on how to structure and refine some of the ideas we've talked about today--

SENATOR INVERSO: Okay. Does that organization-- It started, I guess, in the early '80s?

MR. COE: The National Association for--

SENATOR INVERSO: No, no, the Massachusettes venture-capital outlet. My understanding was, I think in the early-- Actually maybe in the late '70s, we were involved with a venture, and I think they looked at but decided to refrain from getting involved with. I guess they were cherry picking, too. I mean, obviously they had to ensure that whatever they ultimately decided on was going to have the highest prospect of success, even though these were situations where traditional capital markets had closed the doors to them.

I was just wondering how well those investments may have fared from the state's perspective.

MR. COE: Right. I'll find that out.

Keep in mind that I wouldn't recommend structuring ours the way Massachusettes did. I mean, I want us to invest the last 20-- If you ever raised venture capital, the hardest is the last 20 or 25 percent. Now it's kind of like pulling teeth. You've got three-quarters of the amount of money you need, but you can't quite get that last 25 percent. So for the State to do this as I described, provided they locate in New Jersey, essentially means we would be free riding, if you would, on the-- It's not that risky if somebody is raising $5 million and they've raised $4 million of their money, and you put in that fifth million. I mean, they aren't about to try to lose that $4 million, you can be sure of that.

SENATOR INVERSO: That's exactly-- I'm glad you mentioned that, because I have a case in point where a company in a start-up situation, good technology -- and this is not a service sector-type operation, so you know, it could contribute to our manufacturing base. The original incorporators have put in $1 million. They are about to be tapped out. The banks are not responsive. They need about a six-month to eight-month window for working capital. I'm talking about the time it will take to get their data together, such as their mission plan, such as their cash flow and projections in place. They've got a company the size of GE ready to place an order, but want to be assured of financial ability to generate the order.

I see a need there. I see a need for someone to step in, in that six- to eight-month window to provide that carryover capital until such time as everything is in place for a complete financial package for a bank or some other capital situation.

They are in my district, and I'm very concerned about that. But everywhere we turn, we come to a blank in a sense that they don't have their things in order. They need to get them in order. The original shareholders, "You know, $1.2 million, $1.3 million. I'm about tapped out. I have no other collateral to advance." This company employs about 20 people right now. It could go right down the tubes unless someone is ready to ante up and support them for this six-month period.

I see your proposal, if you will, the proposition of the State providing venture capital for the last 10 or 20 percent could even be extended to interim financing or interim support and capital support until such time as it can be taken out by more permanent means. Any thoughts on that?

MR. COE: Yes. I made a venture-capital investment with my own daughter's business. She was 24; she went to Idaho; and she worked in a restaurant. She speaks French. One day a Frenchman walked in. He owns a restaurant in Paris and a restaurant on the French Riviera, and decided to open this North American restaurant, but he didn't speak English.

So she got the owner down -- an elderly woman -- and she translated, and he agreed to buy it at the asking price right there. She said, "Well, gee, that means there won't be a Mexican food restaurant in Sun Valley. I know all of these people; I'll open one."

I loaned her some money. She converted-- It was September, and she was going to open by Christmas. She converted an office building into a restaurant between September and Christmas, using electricians and carpenters and plumbers who all worked for "X" number of meals in time to come. The following April, with the help of an accounting firm I'll leave unnamed -- but it wasn't Senator Inverso's--

SENATOR INVERSO: How did we miss that?

MR. COE: It was not your firm. But I was trying to figure out how to write off this loan on the theory that it was going to fail. She called me up, and they had such a great winter, she paid me back 100 cents on the dollar five months after the restaurant opened.

During the course of this she went to a bank -- an elderly man in the bank at Sun Valley, Idaho -- and she and her partner -- her partner was 22 -- and he looked and he said, "You're too young." Then she went to another bank down the road, and a young woman was the lending officer and she said, "I like it. If you put that equity that you're going to use to convert the building in our bank as a deposit, we'll give you a $15,000 unsecured line of credit." Incidentally, she never used the line of credit, because the restaurant was gangbusters from the opening gun.

I don't mean to divert you with a personal story, but I thought she would never do it. She was going to fail. I went over to the book company -- McGraw Hill, on the Princeton/Hightstown Road -- and they have a bookstore there. In the bookstore they have, "Everything you need to know about every business." They had five books on how to own and operate your own restaurant. It had every criteria you need to know, like number of square feet per customer, cost of the food as a percentage of gross revenue, cost of help -- all of that -- financial accounting sheets, working capital. It had it all. It even had a chapter on everybody who is going to cheat you, which it turned out they all did. The laundry shorted the sheets, the liquor guy shorted the liquor, and every person who works at the bar likes to give their friends free drinks. All these rules of the road are so important.

I read through the five and found the one I thought was the best. I mailed it out to Idaho. She calls it her Bible. She has since, by the way, sold the restaurant for a wonderful price. You can't have three children and run a restaurant at the same time.

But in any event, the State is in a unique position, I think, in terms of that specific working capital thing to have the State's Economic Development Authority involved. They can make loans that a normal bank wouldn't loan. Let's assume it's going to be $200,000. Let's assume they've got $50,000 of equity. Let's assume that the EDA guarantees another $50,000, so that's $100,000. Well, then the independent bank might be willing to loan the other $100,000. You know, there is some point at which they will say, "Okay, if you've got that much, we'll go along with it." I think that you're 100 percent right in the number of companies that hit a moment where they really need some help with working capital, and I think the Economic Development Authority does play and should continue to play a significant role in that field.

SENATOR INVERSO: The only problem there is the turnaround time. There is a period of time in which the company would need to have some assurance that the money would be there, and many times -- at least our experience and their experience -- dealing with the EDA takes too long. We have to shorten that interval.

I've spoken with Bob Hughey in the past. It appeared that he, as our Job Czar, was going to cut through the red tape and expedite things. He acknowledges that in situations like this-- Maybe these are not the typical situations, but I think they tend to be more typical than atypical, where you run out of the initial capital base and you need that working capital to carry you for a period of time.

The other thing I found very interesting was Mr. Calkins comment of the supporting network. I find that, in my experience, to be so true. Many times entrepreneurs can't afford to go out and hire the special expertise that's necessary to carry it through. I think a mechanism like that, that they can avail themselves of the expertise of others to help them organize-- Many times they have a concept. They're technical; they're oriented in that regard; and they're not aware of the inner workings of the system in terms of dealing with marketing, dealing with accounting, dealing with the legal profession, the banks, what have you. So some entrepreneurs' network in place to help with nonfinancial needs, I think, is extremely important.

MR. CALKINS: Thank you. I was pleased, though not at all surprised, to hear each of my colleagues as they spoke also talk about this need for networks. The person coming out of a major corporation whose background was in marketing, for example-- That may be a terrific background for starting a business, but it's not everything that's needed. There are management systems for even a very small business that need to be in place. Assistance may be required on that.

Also, I've come to be so aware in my own life, and in the lives of the many small businesspeople who I talk with, that risk of getting isolated and alone. When that happens, the energy level diminishes; the sense of purpose and direction is lost. I find where there are not formal networks, enormous numbers of just small, informal networks grow up. I'm not quite sure what it says to the State as far as its role, but if we do want to encourage the continued growth and development of these small business sectors, I believe it is profoundly important for us to recognize how deep and fundamental this need is for feeling a part of something larger.

SENATOR INVERSO: We have, within the Department of Commerce, an Office of Business Advocacy, I believe. I thought -- my recall may be fuzzy on this -- that one of their goals was to nurture along situations. I don't know how effectively it's felt that integrated program of supportive networking, but maybe that's something we can look at again. I'm sure they'll be more than willing to develop whatever it is they don't provide right now that would help this process along. I think that it's important to make a note of that comment.

Thank you.

SENATOR SINAGRA: Thank you.

ASSEMBLYWOMAN DERMAN: Mr. Coe, you indicated before that you found there were some deficiencies with respect to the Garden State Program. Can you articulate what those are? If you could create a plan, how would you make it different?

MR. COE: Well, it was geographically specific, and a lot of people don't like to invest in geographically specific things. The thought that I was talking about was really somewhat different from that in the sense that the entrepreneur could be in Palo Alto or Cambridge, Massachusettes, or anyplace. Yet to start that business and in the course of making a decision that, "Yes, for that last 20 percent of the capital, I'd be willing to relocate it to New Jersey," as opposed to just investing in companies in New Jersey, which was what the original plan was about.

ASSEMBLYWOMAN DERMAN: Has anybody found that the securities laws, both Federal and State, inhibit raising capital excessively? I know that we have to protect investors and so forth, but have you found that our securities laws interfere in raising capital? Anybody?

MR. COE: No. The securities laws don't prohibit raising capital in any way whatsoever. Working at the Federal level, for example, the Securities and Exchange Commission has special rules for small offerings, many of which can be done with "sophisticated investors" privately. You don't even have to register the security, or if you want, have a small public offering. I think it's called Regulation "A" for an offering below a certain dollar amount.

In my opinion there's no-- That's a pretty risky thing. I mean, you don't say, "I'm going to start a new business," and go out and do a registered public offering. You're either going to run into the State blue-sky law or Federal laws. I don't think there is a--

ASSEMBLYWOMAN DERMAN: Or a private placement.

MR. COE: You can do private financings with groups of sophisticated investors without registering with either the State or the Federal.

MR. BOSMA: But when you do register, there is a lot of disclosure. The risks have to be laid out in a public offering. The Securities and Exchange Commission is very particular on that.

ASSEMBLYWOMAN DERMAN: Right. Well, I suppose the ability to designate yourself as an accredited investor has eliminated a lot of the problems previously associated with raising private capital.

I also wanted to ask-- I'm sure this has probably been done, but you talked before of the ability to place $1 million with 10 different businesses and see what happens later. Aside from the creation of a blind pool, has anybody attempted to bundle that sort of a concept and promote it; that you're investing in different venture-capital projects?

MR. COE: No. To my knowledge, what I suggested has never been done. There are only about 150 members of the National Association of Venture Capitalists, of whom about 12 are right here in New Jersey. They have a code of ethics, and they have varying abilities. A lot are located in California.

Again, our investment would be free riding on top of them. In other words, we would get reports. I mean, you the Legislature, and certainly the executive branch and those monitoring such a fund, if it were to come into being, should get quarterly, semi, and annual reports on the status of all investments.

But no, the way I described it, it's never been done.

ASSEMBLYWOMAN DERMAN: Okay. Thank you.

ASSEMBLYWOMAN HAINES: One of the things I was wondering-- I know we're trying to bring this into the State of New Jersey. We're trying to keep in here. Do you know of any state that might offer tax credits to private investors who would be willing to invest money into this in any other state? Something that could be done, if it's successful or not successful? Do you know of anything?

MR. CALKINS: To the investor as opposed to the business itself?

ASSEMBLYWOMAN HAINES: Right, to the investors that would be giving the money. Do you know of anything in any other state that might be doing something like that--

MR. CALKINS: I'm not aware of anything like that.

ASSEMBLYWOMAN HAINES: --to give an incentive to more or less invest money to help businesses?

MR. CALKINS: I'm not aware of anything that's oriented toward the investor. I think the idea of tax credits for the businesses is, and really should be, part and parcel. I think what the Committee should be thinking about--

ASSEMBLYWOMAN HAINES: You don't think it would be beneficial, then, to have anything such as that?

MR. COE: I'm sorry. I don't know. The Clinton Federal tax plan preserved the 28 percent long-term capital gains rate. Maybe what you're suggesting is that there is some state, for example, that has a lower or no capital gains tax for state tax purposes, unlike New Jersey, which taxes capital gains as if it were ordinary income. I don't know.

MR. CALKINS: As a reaction, but not a studied one: I think of the things that motivate private investment capital, state taxes would not be a primary driving force. The risk assessment, it's the potential return. Those are-- The impact of state taxes on that potential return, I think, would be modest.

I think the larger challenge is the one force to create this really positive investment climate -- all dimensions -- and perhaps a tax environment for the operators, for the businesses -- is surely a part of what we ought to be weighing, I think, considering the overall climate.

ASSEMBLYWOMAN HAINES: Mr. Bosma, I think you had mentioned that you had done a questionnaire through your bank? Is that what you had done, to ask--

MR. BOSMA: That's correct.

ASSEMBLYWOMAN HAINES: --people who bank there-- That was the only way--

MR. BOSMA: It wasn't to the people who bank there. It was to the general community. We wanted to see if we could meet the needs of the community. We went into Hackensack, which was a mixed community, and into Hawthorne, also. The questionnaire asked whether they had sought out credit, whether they had been denied credit, or if they had any other ideas on how the bank could meet their needs.

ASSEMBLYWOMAN HAINES: You said it wasn't successful. You didn't get a heavy response?

MR. BOSMA: The response was very, very poor. It was a stamped, self-addressed envelope back to the organization, and people just didn't respond.

ASSEMBLYWOMAN HAINES: Was the bank considering going any further, to work with either local governments or counties to see if there was some other way to see if they could get that information that would be most beneficial?

MR. BOSMA: Absolutely. By law we have to, because of the Community Reinvestment Act. But also, we feel we have to support our community, so we are looking into ways we can do that.

ASSEMBLYWOMAN HAINES: Thank you.

SENATOR SINAGRA: Assemblyman, do you have any questions? I know you weren't here for the entire meeting. I don't know if you have any questions for the panel?

ASSEMBLYMAN SOSA: I apologize for being late. I have some sick ones at home, Mr. Chairman.

I don't know if the question was raised in light of the health care reform debate that's going on in Washington. Your assessment, gentlemen, about the impact that the present proposal will have on small businesses in New Jersey, given that we have difficult times, past and present, and I suspect in the near future, about trying to revitalize our economy here in New Jersey, and what impact that would have on job creation, let alone job retention?

SENATOR SINAGRA: The only thing, before we get into that, because we can probably spend five hours on that question-- But I don't know if you know, we have intentions --

and this is for all the Committee members-- I want to have a joint meeting between this Committee and the Health Committee. Senator Bassano has agreed to cochair a meeting of the two committees. We will ask-- Sue Berskie (phonetic spelling) will be at that meeting giving testimony. We will have an entire meeting. I think we set a date of October 20. It will be dedicated to the impacts, what the State needs to do. I've asked the Commissioner of Health, Bruce Siegel, to testify. Unless you have a comment you want to say quickly, we're going to have an entire meeting on that one subject.

ASSEMBLYMAN SOSA: That's fine. I'll be willing to wait.

MR. COE: I just have one sort of general thought. We as a society, whether through our school programs, our college programs, or our unemployment programs, have kind of tried to condition people that you should get a job working for somebody else. Even my parents said, "Son, when you go out into the world, try to get a job with General Electric, or one of these big companies. Try to get a job working for somebody else."

Many colleges take pride in their college placement offices, that they had "123 companies came to our campus," and, "Here is how to interview," and, "Here is how to fill out a resume. Maintain good eye contact, a good, firm handshake. This is how to get a job working for somebody else." Last year, when we took that roughly $50 million a year of moneys that might have gone into the Unemployment Insurance Trust Fund and moved them over to job skill retraining -- an excellent program, by the way; I personally have taken the skill assessment test that the Department of Labor gives, and it's very good -- then you obviously have these skills and some funding to go off and learn some skills that will enable you to get a job working for somebody else.

I'd like to change that whole philosophy. I'd like to require that every high school offer a course in entrepreneurial skills; that every State college offer a course in entrepreneurial skills. Many now do. Temple University just started one at the graduate school level. I'd like every young person to graduate from college or grad school and go through this conscious decision: "Yeah, I could be an entrepreneur, and I could probably swing it. There are a lot of support mechanisms, and I feel confident. I'll be successful and it will be very rewarding. I'll have all the joy of running my own business. But I'm lazy. I want to work 9:00 to 5:00 or 8:30 to 4:30, so I'm not going to do that. I've decided to reject that and then get a job working for somebody else."

I'd love to have that thought process actually occur. I think an awful lot of people today, of the type that we discussed earlier -- there they are, 40 years old, 35 years old, 50 years old. They've lost their jobs. They have a lot of skills; they have some capital. They have some family responsibilities, and they're afraid. I mean, "My God, I'm not sure I can do this. I don't know how to do it. I don't know anybody who has done it. I don't have anybody to network with." Many of these people could really do it.

So I think there is a lot we could do, long term, especially if somebody had to take a course on entrepreneurial skills in college. What a great idea.

SENATOR SINAGRA: Thank you. Does anyone else have any questions or comments? (no response)

My only comment is, one of the interesting parts, and I'd like to ask: Especially as it pertains to states that have entrepreneurs in the high-technology end, in the science end similar to California, do they do anything different than New Jersey does? One of the most interesting testimonies -- Peter and I have discussed it numerous times -- was someone-- I think it was our first Committee meeting. Someone was talking about what New Jersey needs is a long-term plan. His idea was to chair 10 different sciences at Rutgers, to get national science award winners here and develop industries for the future. Surely, we talk about it would cost $15 million, and we wouldn't see the rewards for 10 years. Sometimes I criticize the administration and even the Legislature for being too shortsighted. But we need an economic plan that has some vision for the future.

But part of that, in bringing those people here, is what do we need to do for the businesses they will create -- those entrepreneurs who will be undercapitalized, people with vision? Do other states do anything, or is it just pretty much hodgepodge?

Anybody can answer that question who happens to know the answer. (no response) I guess we'll look into it.

MR. DONLAN: Senator, I can't really speak to what other states do specifically, but it does perhaps open the possibility to say one other thing that I had wanted to, how much I appreciate the whole spirit and the tone of this meeting. I sometimes think it's a rather troubling phenomenon in our country that business and government often seem somehow to define an adversarial relationship. Clearly it shouldn't be. Clearly it's not the intent on either side to be adversarial. Somehow it seems to evolve that way.

I think that State government clearly has an important role to play in trying to define a supportive kind of policy framework within which business can operate. A part of the kind of consultative process or action plan that I mentioned earlier I would think might quite properly begin around the identification of a couple of the industries of the future, and trying to bring together all of the potentially interested players: State government, the business community, the universities -- with other kinds of intermediaries to see if there is some way to define a longer term strategy that has as its intent to promote increased investment in these industries of the future. It would be timely and important.

SENATOR INVERSO: Mr. Chairman, could I ask Mr. Donlan a question?

SENATOR SINAGRA: Go ahead.

SENATOR INVERSO: Mr. Donlan, you commented in terms of the consulting services of your firm that some of the results-- Interestingly enough, you mentioned franchising as kind of a natural -- perhaps a natural evolution for someone who is now without a job -- middle management, or even a top-management position -- and I understand that that is an area that many people have gotten into and done very well in. But probably your best success story was the manufacturing. You mentioned-- What was it, $20 million?

MR. DONLAN: A $20 million generic pharmaceutical company. Unfortunately, it's in Texas.

SENATOR INVERSO: Okay. But I guess my question is, does your firm try to allocate your guidance so that it's not only franchising; it's not only service sector-type entrepreneurial situations, but it's also into what I call the manufacturing or the industrial-- Not industrial because that's probably biting off more than one could chew in this kind of transitional period one finds themselves in. But do you try to match up something that would be more manufacturing oriented, as opposed to service oriented?

MR. DONLAN: Yes. Most of that happens as a result of the skill assessment that the candidates go through. So if you have a candidate coming out of a manufacturing environment, they will tend to gravitate toward manufacturing. So a lot depends on where the candidates are coming from and what their backgrounds are.

We're somewhat neutral in that regard. What we're after is identifying what are the key skills the individual has the experience at. So we've had some good success. We've had a couple of small manufacturers also get started on the basis of that's what they came out of, that's what they knew. They had engineering backgrounds, for example, so that we're not strictly service then. A lot will depend on what the population's background is at that point in time.

SENATOR INVERSO: When you find a candidate in that latter category, manufacturing -- it could be light manufacturing or maybe be heavy manufacturing -- do you find the opportunity? Do you help them make the contacts with the banking professionals, with the marketing professionals? Do you put together a whole supportive -- getting back to the supportive network situation. Or is it that you do the skill assessment evaluation and say, "You tend to have a proficiency toward manufacturing. You'd be very good at it, and we suggest you go that route."?

What's the next step that you do?

MR. DONLAN: Yes, beyond just the training and the assessment, and the business plan, we're very fortunate in that many of our former graduates have ended up in banking -- investment banking in venture fields. So we're able to put them in touch with people who can do marketing, people who can do a brochure, individuals who can possibly help and assist them in raising funds. So the net is beyond just a pure training and development of a person and a business plan.

SENATOR INVERSO: It's one thing to say, "You have a propensity or skill toward manufacturing." You've got to find the setting for that. Do you help in that regard, or is it just that you give them a concept, provide them with network opportunities, and say-- Again, I just want to know how you approach this, because it's very clear that I think we need to have -- I guess everyone uses the word balance. Service sector entrepreneurial opportunities are great, but I think we can get to a saturation point of how many McDonald's and Burger Kings, and Mail Boxes do we need in the State of New Jersey. We probably need more so--

I still would like to see some light and medium manufacturing type of opportunities develop into entrepreneurial opportunities.

MR. DONLAN: One of the things we're able to offer is a very extensive data base of research information at each of our offices. So when they begin to think about how big this business is going to be and what it's going to manufacture, we can actually go in and identify those businesses that might be potential targets for them and assist them in developing the campaign necessary to identify if any of those businesses might be for sale.

In other cases, we've referred them to companies that specialize in finding businesses or people coming out of the corporate arena. These have been successful because they do it full-time. We've been able to develop a couple of relationships there where they can, once the candidate spells out what it is they really feel they want to do, this person will act as a third party and go out and literally do the research, approach the company, make sure that there is, in fact, an intent to sell so that the individual doesn't waste a lot of time. And also, that person typically then has some of the connections necessary into venture and into banking, so they can all sort of support the effort.

We really don't see it as helping them identify it. We use our network, in turn, to really get them to open up.

SENATOR INVERSO: Would you say, though, that physically the majority of those who go into say, a manufacturing environment, go into through an acquisition as opposed to the creation of a new operation?

MR. DONLAN: Yes, I think that is probably more true than not, again, because of the assets and capital equipment that are needed. So it sometimes tends to be easier to do it that way.

SENATOR SINAGRA: Thank you.

Thank you, Peter.

Thank you, gentlemen. If you have any prepared remarks, if you would leave them with the transcriber. Other than that, thank you for your time.

We have one bill that we're going to consider today, and that's Senator Bennett's bill, S-2098. I see that we have three people who signed up to testify. Are any of them still in the room? (no response)

Does anyone have any testimony in opposition to Senate Bill No. 2098? (no response) I'll say that one more time. Does anyone have any testimony they would like on the record in opposition to Senate Bill No. 2098? (no response)

Does anyone have a compelling desire to say something about S-2098 before I ask for the bill to be moved?

SENATOR INVERSO: Not even the sponsor has a compelling desire.

SENATOR SINAGRA: No, we're not going to ask him any questions.

SENATOR BENNETT: There is an amendment that has to be done first.

SENATOR SINAGRA: Would you like to tell us about the amendment, or read it into the record so we know what we're--

MR. MANOOGIAN (Committee Aide): The amendments which are proposed provide that a fee of $20 shall be charged for the filing of an annual report, and deletes the provision that up to a $25 fee could be charged for 24-hour expedited, over-the-counter service. These were proposed by the Secretary of State's Office.

SENATOR SINAGRA: And you agree with those amendments?

SENATOR BENNETT: Absolutely.

SENATOR SINAGRA: May I have a motion with the amendments?

SENATOR ADLER: Moved as amended.

SENATOR INVERSO: Second.

SENATOR SINAGRA: Could I have a roll call?

MR. MANOOGIAN: Senate Bill No. 2098 as amended: Senator Sinagra?

SENATOR SINAGRA: Yes.

MR. MANOOGIAN: Senator Inverso?

SENATOR INVERSO: Yes.

MR. MANOOGIAN: Senator Bennett?

SENATOR BENNETT: Yes.

MR. MANOOGIAN: Senator Adler?

SENATOR ADLER: Yes.

MR. MANOOGIAN: Does the Assembly wish to concur?

SENATOR SINAGRA: Does the Assembly wish to concur?

ASSEMBLYWOMAN DERMAN: Does anyone wish to speak on this bill? (no response)

MR. MANOOGIAN: Assemblywoman Derman?

ASSEMBLYWOMAN DERMAN: Yes.

MR. MANOOGIAN: Assemblywoman Haines?

ASSEMBLYWOMAN HAINES: Yes.

MR. MANOOGIAN: Assemblyman Sosa?

ASSEMBLYMAN SOSA: Yes.

SENATOR SINAGRA: Okay. Thank you. Please be careful driving.

(MEETING CONCLUDED)

APPENDIX

STATEMENT OF BARKLEY CALKINS TO NEW JERSEY'S JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

MEETING OF MONDAY, SEPTEMBER 27th, 1993

My name is Barkley Calkins, and I appreciate the opportunity to be part of this hearing on Job Creation and Incentives for the Small Entrepreneur. For the last 3 1/2 years I have been a small entrepreneur operating a management consulting business from an office in my home. Prior to that, I was a vice president with J. P. Morgan & Co., a major commercial bank, where I worked for 25 years. For much of my career at Morgan I was a financial analyst, providing analytical services to the bank and to its corporate clients; my slant on the issues being addressed by this Committee will reflect that perspective. I was also involved for many years in our community development activities.

Given your concern for job creation in the State, it is wise to focus on the important role played by small business. Based on information provided by the SBA, very small businesses -- defined as those employing less than 20 people -- account for some 20% of total employment and payroll in the State. Small businesses -- defined as employing less than 500 people -- account for more than 50% of total employment and about 50% of payroll.

Thus, we can say with conviction that small business -- however defined -- is already a major source of employment and income in our State. It follows that programs which strengthen the small business sector will inevitably have important implications for job creation.

Furthermore, many of the growing numbers of individuals who were formerly employed by large companies, whose positions disappeared as a result of corporate mergers or downsizings, have specific skills and a strong work ethic, and are potential small entrepreneurs; collectively, this is a potential resource of real and growing importance.

My experience, both in banking and as a consultant, has increased my awareness regarding the fact that financing, particularly bank credit, is a special challenge for small businesses, which typically lack substantial assets and an established record of profitability. Government programs such as those of the SBA have proven problematic. In seeking to increase the access of small business to finance, I believe we are well advised to proceed on the assumption that expertise regarding financial resource allocations based on risk assessment is best viewed as the province of the private sector.

While increasing the access to finance for small enterprises must be among the issues addressed as a part of a job creation strategy, it should not be addressed in isolation from the whole web of interrelated forces that collectively define the investment climate. The needs of small entrepreneurs and small enterprises are varied and complex. In addition to the need for finance -- both working capital and long term investment capital -- small enterprises may also have a range of nonfinancial needs, e.g. new or expanding markets for their products and/or services; technical assistance in any number of forms; supportive networks; prospective partners for new business ventures; a reliable transportation and communications infrastructure; assistance in dealing with regulatory and/or legal issues; etc.

If increasing investment in the small business sector is the objective, a comprehensive approach to determining its most critical financial and nonfinancial needs is required. The diversity of the sector is a complexity; the unemployed or underemployed former corporate executive will inevitably have different needs from the disadvantaged inner-city entrepreneur.

A pure "free market" approach is not likely to lead to significantly increased investment in small business; incentives are needed. The optimum approach would seek to create an investment climate for small business in which the banks and other sources of finance can comfortably commit capital.

As a first step toward creating the appropriate investment climate, I would like to recommend that the Joint Committee consider the initiation of a consultative process or dialogue involving high level representatives of 1) State government, 2) the business community, both the financial and nonfinancial sectors, and 3) relevant nonprofit organizations or other specialized intermediaries with expertise in public policy, and in assisting small businesses. The intent of such a dialogue would be to develop a working consensus and an action plan for engaging each of those three sectors in promoting increased investment in small business.

To give such a process focus and a manageable scope, the preparation for it could include background research intended to define:

1. Certain industry sectors to be given priority.

2. The most significant financial and nonfinancial needs in those sectors.

3. Possible roles for interested governmental and nongovernmental bodies.

In addition to leading into an action plan, the consultative process would provide an ideal opportunity to:

o Inventory and assess the supportive structures already in place, e.g. incubator programs, management assistance programs, supportive networks of small business men and women, loan guarantee programs, etc.

o Define the important service and financing gaps, and develop appropriate programs to address those gaps.

o Define the appropriate public policy framework to assure the growth of the small business sector.

Regarding this last point, I would again emphasize that the optimum public policy framework will seek to engage the resources -- both the money and the expertise -- of the private sector, i.e. banks, private venture capitalists, business assistance programs, etc., on a voluntary rather than a mandated basis.

In addition to building a State-wide working consensus and plan for action, the consultative process should provide clarity on the range of public policy options that might be used to facilitate such private sector involvement; examples could include, though need not be limited to: deposit incentives; tax incentives; favorable government purchasing policies; supplemental funding for providers of technical assistance; partial loan guarantees in carefully defined circumstances; etc.

I look forward to the other presentations this morning. Bruce Coe, President of the New Jersey Business and Industry Association, will provide important insights into the needs of small businesses as identified through surveys of his large and diverse membership, many of which are small enterprises.

Jeffrey Ashe, the key figure in Working Capital, will describe their unique and successful program, now being implemented in four Northeastern states, which has successfully increased the access to bank credit on the part of very small businesses by getting the proprietors to come together into business loan groups; these groups not only improve the quality of the credit, but also serve to empower the individual participants so that they become more effective business men and women. I believe that the model Jeff will describe could have important potential for replication here in New Jersey.

And Roger Bosma, the very thoughtful President and CEO of a bank in Bergen County will provide a policy level perspective on the special challenges faced by banks in small business lending. If access to bank credit is to be increased on a substantial, State-wide scale, the legitimate concerns of the bankers for the profitability and the quality of their loans must -- in my judgment -- be acknowledged, and addressed constructively.

Perhaps after these presentations, it will be appropriate to return to my idea of a high level consultative process or dialogue.

Thank you again for the opportunity to talk with you on a matter of such importance to us all.