

The Small Business Workforce Crisis

A Study of the Skills Shortage
and Possible Solutions



This Position Paper is a compilation of comments made by small business owners and industry leaders during the year 2000, Voices from Main Street program sponsored by American Express Small Business Services. The comments here—regarding workforce skills needs—came from on-line chats, townhall meetings and original research. These comments do not necessarily reflect the opinions of the American Express Company.

Overview

In March 2000, American Express Small Business Services launched the *Voices from Main Street* program, to provide a national platform for small business owners and to shine a spotlight on their most critical issues, including the lack of workforce skills. Through a variety of forums, small business owners were asked to express their opinions. Forums that focused on the workforce skills problem included an on-line chat on June 27, a national webcast townhall on Sep. 6, and a national survey of more than 1,100 entrepreneurs (business owners with fewer than 100 employees) conducted in May. In addition, Jim Blann, a Senior Vice President for American Express Small Business Services, was asked to testify before Congress in September on this subject.

While small business owners are a diverse group with a broad range of needs and concerns, they have a consensus opinion about the quality of today's workforce - - it is insufficient for their ongoing success.

This position paper attempts to synthesize some of the points raised and recommends some actions small business owners and community leaders can take to alleviate this problem. At the end of this position paper is a list of other resources that may provide interested parties with additional information on this subject.

*“**T**his situation has truly reached a crisis level for small business owners across the country. The small business community is telling us that they need a better equipped work force, or the entrepreneurial renaissance that has driven so much of this country's record economic expansion will wither.”*

***Jim Blann, Senior Vice President, American Express Small Business Services
U.S. House of Representatives, Small Business Subcommittee, Sep. 28, 2000***

*“**T**he current and future health of America's 21st Century economy depends on whether Americans can reach a new level of '21st Century literacy', consisting of strong academic skills, thinking, reasoning, teamwork skills, and proficiency in using technology.”*

***Lawrence Perlman, Chairman, 21st Century Workforce Commission
Voices Webchat, June 27, 2000***

The Situation

According to the American Express Voices from Main Street survey (1,100+ national respondents, May/June 2000), 53 percent of U.S. small business owners report that the majority of their employees stopped their formal education after high school. Eighteen percent report that the majority of their employees attended at least a two-year college and 17 percent said the majority of their employees attended a four-year college.

The smallest of small businesses tend to have more employees with a college education, as these firms often are consulting companies and other business services firms whose college-educated principals are the only employees. But as firms grow larger, small businesses become increasingly dependent on high school educated workers.

Percent of Small Firms Reporting the Highest Level of Education Achieved by the Majority of Their Employees (By Number of Employees)

(# of responses)	<u>All</u> (798)	<u>2-4</u> (303)	<u>5-9</u> (156)	<u>10-19</u> (152)	<u>20-40</u> (114)	<u>41-99</u> (73)
High School	53%	43%	54%	51%	65%	74%
2-Year College	18	19	22	16	14	12
4-Year College	17	24	15	17	11	8
Post Graduate	5	9	5	5	2	--
Vocational Training	4	4	4	5	5	3

Unfortunately, as companies grow in number of employees and annual revenues, satisfaction with workforce skills diminishes. Thirty four percent of all small firms (businesses with fewer than 100 employees) say they are very or extremely satisfied with their employees' skills, while only about 20 percent of firms with 20-99 employees report the same level of satisfaction.

“T here’s a disconnect between what is being taught in schools and what small businesses need to keep our businesses growing.”

Terry Neese, Co-Founder, GrassRoots Impact – Oklahoma City, OK
Voices Webcast Townhall, Chicago, Sep. 6, 2000

While PCs and computer technologies have had a dramatic impact on the U.S. economy the last 20 years, small businesses report that their employees still depend more highly on communications and interpersonal skills (ranked 1st and 2nd)*. This likely reflects the fact that many small companies are still low-tech businesses. For a restaurant, retail shop, landscape business or other personal services firm, an employee’s ability to perform superior customer service and interact effectively with other employees remains paramount.

Voices from Main Street Positionpaper on Workforce Skills, Jan. 2001
American Express Small Business Services

“I t’s the life skills that need to be taught, not just the technical skills.

**Deborah M. Sawyer, President/CEO, Environmental Design International – Chicago
Voices Webcast Townhall, Chicago, Sep. 6, 2000**

While the skills more associated with a high-tech economy, math (ranked 3rd), computer skills (8th) and science (10th) are less important to smaller firms, according to Voices from Main Street participants, this likely will not remain the case.

“T he typical small business is not currently engaged on the Internet and only a little over half of smaller businesses have a website. Of those, a pretty big percentage outsource maintenance of their web site. But that doesn’t make it any less vital to the success and future growth of the economy.”

**Todd McCracken, President, National Small Business United, Washington, DC
Voices Webchat, June 27, 2000**

Because small businesses are so highly dependent on high school graduates, programs that bring work place experience to K-12 curriculum are very important. Unfortunately, for many entrepreneurs, they frequently lack the human and capital resources to be directly involved in solving the workforce skills dilemma. Being so focused on day-to-day crises, small business owners more often than not are unaware of local programs available to assist them in finding and/or training employees. Indeed, only 40 percent of Voices from Main Street survey respondents with employees reported knowledge of workforce skills programs in their community.

“T he sad thing is that many good programs exist that could help small business owners today. Created at the state, county and local levels, through a combination of school administrators and business groups, many of these programs unfortunately just aren’t widely promoted.”

**Jim Blann, American Express Small Business Services, New York
House, Small Business Subcommittee, Sep. 28, 2000**

Even when they were aware of local programs, only 38 percent of those familiar with community programs took advantage of them.

“Small business owners don't have the time usually to get involved in their local educational systems and too often feel like the time they do have to get involved isn't often productive.”

Todd McCracken, NSBU
Voices Webcast Townhall, Chicago, Sep. 6, 2000

Despite their busy schedules, many small business owners do participate in local programs. Most work with community colleges and vocational schools. According to the Voices from Main Street survey, the resources small businesses most frequently tap to improve workforce quality include:

Community colleges	37%
Vocational schools	29
Public schools	24
Private colleges/universities	15
Business associations	10

“Community colleges are absolutely at the forefront of providing the linkages with high schools, as well as with incumbent workers, in providing the appropriate levels of training.”

Lawrence Perlman, 21st Century Workforce Commission
Voices Webchat, June 27, 2000

Finally, education is not the only issue impacting the quality of the workforce available to small businesses. Benefits also play a significant role, especially for those small firms that compete with large companies.

“An additional concern of small business in this area isn't simply how to improve the overall workforce, although that is critically important. It is also how can we shape policy so that smaller businesses can compete effectively for the workforce that is available to them. That means some potentially significant changes in the way that the federal government regulates and oversees employee benefits, and it also means changes in the way smaller businesses themselves do business.

Todd McCracken, NSBU
Voices Webchat, June 27, 2000

Solutions

Most of the solutions which small business owners say would help their situation have been implemented somewhere in the U.S. For example, a number of public schools are forming partnerships with local businesses to make K-12 curriculum more relevant to the work place. Some design internship programs specifically to connect high school students with smaller firms.

At the same time, a host of for-profit companies are developing a range of on-line training programs marketed to small businesses and their employees. And finally, community colleges and associations are working to develop and expand skills training programs applicable within vertical trades.

Still, small business owners have their own suggestions for enacting change. Their four most often stated recommendations are:

1) Create a central information repository

As can be seen in the Voices research and through questions and comments of the small business community, the first and foremost problem is linking entrepreneurs to existing successful efforts in this area. Time-taxed entrepreneurs need information, readily accessible to them in one location, 24 hours a day, seven days a week.

“One immediate action could be providing small business owners with a single convenient place for them to find out about existing local programs. For example, the SBA could perhaps add to its web site a place where educational institutions and small business owners could come together to promote their programs, share experiences and expand best practices.”

Jim Blann, American Express Small Business Services House, Small Business Subcommittee, Sep. 28, 2000

2) Incorporate more internship programs formally into high school curriculum.

Many of the school-to-work programs in place today are used more by larger businesses. Having more of these programs managed with a focus on placing interns at smaller businesses would expose more young workers to the opportunities a small firm provides.

“I would like to see more subsidized internships so that more kids can go to work at a real job while they’re still in school. Let’s work with high schools and vocational schools to give them some idea about what’s happening in the real world.”

Deborah M. Sawyer, Environmental Design International – Chicago Voices Webcast Townhall, Chicago, Sep. 6, 2000

“I would like to see more tax credits for internships. That would be an effective tool.”

*Jim McCann, CEO, 1-800-Flowers.com – Westbury, NY
Voices Webcast Townhall, Chicago, Sep. 6, 2000*

3) Small business owners need to direct private industry solutions.

Although small businesses welcome assistance from federal, state and local governments in the form of grants and technical support, they are not necessarily looking for public sector-driven solutions. In fact, most believe they themselves are responsible for charting the route to improvement. Some of these solutions include small business owners running for positions on school boards, or working with school administrators and teachers to expand existing curriculum to cover more of the skills needed to succeed in the work place.

“We need to take some initiative and go in there and work on school curriculum. I’m in favor of seeing private industry partnering more with the schools.”

*Terry Neese, Co-Founder, GrassRoots Impact – Oklahoma City, OK
Voices Webcast Townhall, Chicago, Sep. 6, 2000*

“A local Chamber of Commerce that is persistent and insistent on changing their local school system, working with a broad base of local businesses, will almost certainly have real impact.”

*Todd McCracken, NSBU
Voices Webchat, June 27, 2000*

“In Dallas, the Chamber of Commerce, consisting of both large and small companies, has had a significant impact on improving the Dallas school system.”

*Lawrence Perlman, 21st Century Workforce Commission
Voices Webchat, June 27, 2000*

“Small business owners know they have a responsibility to get involved. They are looking for opportunities to assist local schools and other institutions in preparing the next generation for the working world.”

*Jim Blann, American Express Small Business Services
House, Small Business Subcommittee, Sep. 28, 2000*

Where the government can assist the private sector is by providing Department of Labor and Department of Education grants for existing school-to-career initiatives.

“The Workforce Investment Act of 1998 took a lot of the training money and responsibility away from the federal government and put it into business-lead state and regional workforce commissions. The business community, and certainly small businesses, needs to get engaged in these workforce commissions which have substantial financial resources in the form of block grants.”

*Lawrence Perlman, 21st Century Workforce Commission
Voices Webchat, June 27, 2000*

4) Take advantage of the growing number of elderly workers.

A focus on preparing young people for the workforce should not be at the expense of developing training programs that can assist workers of any age, especially older Americans who are making up a greater percentage of the population every year.

“Older Americans are our fastest growing population and we would be foolhardy to overlook the potential they represent for continued productivity in our economy. Training is a crucial issue for them and we ought to devote the resources to make sure that they have the training they need. Individual small businesses should consider ways in which they can help provide that training to retirees, because often older workers who are retired or semi-retired can provide flexibility that meshes well with a small business environment.”

*Todd McCracken, NSBU
Voices Webchat, June 27, 2000*

“With people living longer, there is enormous opportunity to bring older folks into the workforce. Older Americans—retirees—have excellent work habits that are important to small business, and in many cases they could do some of the mentoring around work habits for younger workers — perhaps people in high school—that could really benefit small business owners.”

*Lawrence Perlman, 21st Century Workforce Commission
Voices Webchat, June 27, 2000*

Final Thoughts

While some solutions drew a consensus of support, two over-arching themes were universally repeated throughout the **Voices from Main Street** program.

1) Key initiatives should be simple — simple to understand and simple for small business owners to access and utilize.

“Solutions that require more paperwork or are inconvenient to access and manage will not be widely used and will not improve the situation for most small firms.”

Jim Blann, American Express Small Business Services House, Small Business Subcommittee, Sep. 28, 2000

2) Small business owners have to make a personal commitment to improving their local workforce.

*“Everybody is falling down on the job and no one group can solve the problem. We need everyone involved, parents, teachers, government, **and** small business owners.*

Deborah M. Sawyer, Environmental Design International – Chicago Voices Webcast Townhall, Chicago, Sep. 6, 2000

Additional Resources

Websites

Association of Small Business Development Centers; <http://www.asbdc-us.org>

Business Coalition for Workforce Development; <http://www.workforceinfo.net>

Fortune Small Business Magazine; <http://www.fsb.com/fortunesb>

The National Academy Foundation; <http://www.naf-education.org>

National Alliance of Business; <http://www.nab.com>

National Association of Workforce Boards; <http://www.nawb.org>

National Governors Association Center for Best Practices: (workforce development related links); <http://www.nga.org>

National Small Business United; <http://www.nsbu.org>

U.S. Chamber of Commerce, Center for Workforce Preparation;
<http://www.uschamber.com/cwp>

Research and Studies

“Building Companies, Building Communities; Entrepreneurs in the New Economy,” July 2000; National Commission on Entrepreneurship

“Human Resource Management Practices in Small and Medium Sized Enterprises,” Aug. 30, 1999; Robert Heneman, Judy Tansky and S. Michael Camp

“The Future of Small Business -- Trends for a New Century,” March 2000, American Express, IBM, National Small Business United, RISEbusiness;
<http://www.riseb.org/esarchive.html>

“Using Quality to Achieve Standards: How Educators and Business Can Take Action Together,” The Baldrige in Education Initiative; <http://www.biein.org>