

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SSSCR 18 am
 Title: Re. small business development
in the state
 Sponsor: Fischer
 Requestor: House Finance Committee
 Date of Request: 5/2/84

FISCAL DETAIL

Agency Affected: _____
 Program Category Affected: _____
 BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		0				
200 TRAVEL		0				
300 CONTRACTUAL		0				
400 SUPPLIES		0				
500 EQUIPMENT		0				
600 LAND & STRUCTURES		0				
700 GRANTS, CLAIMS		0				
800 MISCELLANEOUS		0				
TOTAL OPERATING		0				
CAPITAL		0				
REVENUE		0				

FUNDING: (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS		0				
OTHER		0				
TOTAL		0				

POSITIONS:

FULL-TIME		0				
PART-TIME		0				
TEMPORARY		0				

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis Any funds needed to implement this bill can be absorbed within the Departments' existing budget.

Prepared By: Al Adams, Chair Phone: 465-3706
 Division: House Finance Committee Date: 5/2/84

Approved by Commissioner: _____ Date: _____
 Agency: _____

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

Original sponsor: V.Fischer

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 HOUSE CS FOR SS FOR SENATE CONCURRENT RESOLUTION NO. 18 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Relating to small business development
6 in the state.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS it is in the best interests of the state to maintain and
9 strengthen the overall economy of the state and to mobilize its full pro-
10 ductive capacity; and

11 WHEREAS declining oil revenues make it imperative that the state
12 develop a widespread economic base to decrease our dependence on a single
13 revenue source; and

14 WHEREAS small business development is an excellent and proven source
15 of new employment, industry, and entrepreneurship; and

16 WHEREAS many small Alaska-owned businesses are controlled by residents
17 with a strong financial, cultural, and social commitment to the state; and

18 WHEREAS additional costs associated with labor, transportation,
19 weather extremes, lack of infrastructure, high energy costs, and vast
20 distances place a special burden on small, Alaska-owned businesses; and

21 WHEREAS this burden places small, Alaska-owned businesses at a disad-
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23 larger, nonresident businesses; and

24 WHEREAS many small Alaska-owned businesses are faced with bankruptcy,
25 particularly those businesses owned and operated by women, minorities, and
26 other economically disadvantaged groups; and

27 WHEREAS small Alaska-owned businesses face significant obstacles to
28 obtaining adequate credit, bonding, and loans; and

29 WHEREAS the state is currently engaged in state-funded public works

1 projects of unprecedented proportions; and

2 WHEREAS the scope and size of state-funded construction projects are
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4 bid on; and

5 WHEREAS it is in the best interest of the state to assure that a
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7 small, Alaska-owned businesses in order that the state and its residents
8 benefit from business generated by state funded construction projects; and

9 WHEREAS it is the declared policy of the state that government should
10 aid, counsel, assist, and protect, in so far as is possible, the interests
11 of small-business concerns in order to preserve free competitive enter-
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13 WHEREAS the security and well-being of the state cannot be realized
14 unless the actual and potential capacity of small business is encouraged
15 and developed;

16 BE IT RESOLVED by the Alaska State Legislature that the governor is
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18 contracting, local hire, and small business advocacy and to recommend
19 measures that will:

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23 loans for small, Alaska-owned businesses;

24 (3) assure, wherever possible, that state-funded construction
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28 FURTHER RESOLVED that the governor is respectfully requested to direct
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I

Social Needs and Business Opportunities

Inflation, unemployment, and underemployment are among the most serious ills which have combined to erode the quality of life for many in Western society, where large numbers of poorly educated, disabled, and disadvantaged individuals are denied the opportunity to be more productive and are frustrated in their efforts to attain more meaningful levels of existence. The situation is far worse for the majority of those who occupy the other three-quarters of the globe and have yet to achieve an even minimally acceptable standard of living. The gap between the rich and poor nations continues to grow as developing countries attempt to cope with widespread illiteracy, malnutrition, inadequate health care, and a lack of job opportunities for their expanding populations. Rich and poor nations alike are burdened with the economic problems brought on by the decline in the availability of cheap energy, the degradation of the environment, limited supplies of natural resources, and lagging creativity and innovation.

Government has traditionally been held responsible for solving such problems. The fact that conditions have become steadily worse over the years, however, makes it clear that government has failed in this role and that fundamental changes are needed in the way we address society's major needs.

One key change is for business to take the initiative and provide the leadership in planning, managing, and implementing programs designed to meet society's needs and turn them into business opportunities. Along the way, business must cooperate with government, labor unions, universities, organized religion, and other influential segments of society. Where the resources of a single com-

SOURCE

"Evaluation of the Best Business Strategy in the World" address, 1980-81 Distinguished Lecture Series, Laboratory for Computer Sciences, Massachusetts Institute of Technology, Cambridge, Massachusetts, February 19, 1981.

pany are insufficient, as will often be the case, two or more companies should work together on joint projects or ventures. In any event, there should be an appropriate sharing of costs between business and government.

It was our growing conviction that business could and should assume a leadership role that prompted Control Data to adopt such a strategy in the late 1960s. We have pursued it vigorously and with sound results ever since. In general, the reaction of the business community has been to view us as both unrealistic and idealistic and to assume that our "grand social experiment" will ultimately prove unsuccessful at the expense of our stockholders. At the same time, many persons in government and other sectors have welcomed the possibility of business as an ally while timidly withholding their full support, ostensibly awaiting more evidence of the strategy's effectiveness.

This reluctance may be attributed to a lack of understanding of our social and economic system and an unwillingness to recognize how serious and deep-seated its problems are. The typical business executive, for example, does not appreciate how pivotal technology has been to our economic growth and development and how its application can contribute to alleviating or solving our problems. Most legislators either share this misunderstanding or do not have the courage to propose laws that would inevitably require sacrifices. The man on the street knows even less about technology and its relationship to jobs and other aspects of our quality of life. Yet our society is increasingly dependent on technology.

It is left to the business community to take a more innovative stance, and this necessitates a significant shift in attitude. At the present time, most large corporations, with their vast resources and established markets, generally prefer to boost profits by improving existing products and services. They may acquire other products and services by absorbing small companies, but this is not the same as creating something themselves.

The failure of business to be more innovative is largely a function of our increasingly no-risk culture. Innovation means doing something original, often at great expense—first with regard to development, and later in the



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initial manufacturing and marketing stages. The rising costs of innovation, combined with pressure from investors for immediate earnings and the uncertainty caused by an unstable economy, have resulted in a tendency on the part of corporations to avoid the risks associated with truly innovative actions. The emphasis instead is on realizing instant payoffs by marginally upgrading current offerings and by lowering labor costs through mechanization and automation. In this type of environment, the development of new products and services—and therefore new jobs—is relegated to a back seat.

The reluctance to take risks is not confined to the business community. The education establishment is resistant to the changes brought on by declining-student populations, escalating costs, and its own all too apparent inability to meet individual needs. Universities are no longer in the vanguard in many scientific, economic, and social fields. Labor unions shun cooperation with corporations in addressing the needs of society—and, by extension, of their own members. Foundations give money out of their income to alleviate social ills, but they put virtually none of their assets into high-risk investments. Most religious organizations are reactionary, having a penchant to criticize without offering realistic solutions to problems and remaining on the sidelines when it comes to confronting major social issues.

While business continues to follow a policy of maximizing short-term gains with minimum risk, there are signs that it is beginning to recognize that it has responsibilities beyond just making a profit. These are commonly termed “social responsibilities,” and they encompass a wide range of activities. Their main focus is on non-shareholder constituencies: employees, customers, suppliers, and communities.

When a business becomes conscious of its social responsibilities and willing to do something about them, it starts looking for ways to maximize its positive effect on its non-shareholder constituencies while minimizing its negative impact. Usually the business turns to such policies and programs as equal job opportunities for employees, improved career counseling for the disadvantaged, counseling for

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chemically dependent workers, community involvement, heightened product safety, pollution reduction, energy conservation, charitable contributions, and the like. These and other approaches are receiving increased emphasis of late, largely because experience has shown that the failure to address social problems can be very costly in terms of labor efficiency and product quality. In other words, for a business to heed and act upon its social responsibilities is not mere altruism; rather, it reflects enlightened self-interest and good business sense.

Each corporation has its own views as to what its social responsibilities are and how they should be met. Most opt for one or more of the actions cited above. But even though these efforts are all highly laudable, their end results tend to be narrow in scope and small in scale. Meanwhile, major societal needs are left relatively unattended. And these are the needs that underlie and are inter-related with inflation, unemployment, underemployment, and similar woes.

That these problems persist only serves to underscore the fact that corporations must effect fundamental changes in their strategy. They must begin turning unmet social and economic needs into profitable business opportunities, with the costs being shared between themselves and government. This strategy should be widely adopted, and I believe it will be someday, because it will come to be seen as the appropriate course of action for the Prudent Man.

Throughout business history, the Prudent Man has set an important example and provided business with invaluable guidelines. At present, however, he is an ostrich with his head in the sand, hiding from the tough realities of an increasingly complex world. He is long overdue to lift his head and look around him, for society's major unmet needs are crying for his attention—and presenting him with unique opportunities.

The strategy of addressing social needs from a business perspective is not new to the Prudent Man. But he seems to have forgotten what he learned early in this century from Henry Ford and other entrepreneurs, and it is time for him to review the facts.

When Henry Ford realized that a growing rural America urgently needed better transportation, he responded by building a great corporation. Hundreds of thousands of jobs were created in its factories and related service businesses; untold numbers of people made fortunes on the Tin Lizzy. General Wood of Sears, Roebuck founded a highly profitable network of retail stores to serve the diversifying needs of a new American middle class. Westinghouse and General Electric both flourished as they served the nation's burgeoning needs for electrical power. Countless other examples from the past could be mentioned here, but I believe that these serve to illustrate my point: history teaches that addressing major unmet social needs is sound business.

Granted, things are different today. Society's needs are more complex, and responding to them effectively often requires that large quantities of resources be amassed through cooperative arrangements. For various reasons, though, most corporations are unable to contemplate such an approach, let alone adopt it. They are hindered by the arrogance inherent in large corporations, by the desire for autonomy, by bureaucratic inertia, and by their own distaste for collaboration. In addition, the traditionally adversarial relationship between business and government prevents them from seeing the potential of those alliances.

The unwillingness to cooperate with others is aggravated by the fact that most executives have a somewhat narrow field of interest. They are inordinately influenced by stockholder pressures to deliver short-term earnings, and they are overly concerned with the executive bonuses geared to the current year's bottom line. They do not choose to see beyond these boundaries because the risk is too great. If they adopted a more creative or innovative strategy—one which embodied a commitment to social needs—then the adequate return on their investments would come much later than the majority of investors and corporate managements prefer.

In reality, however, business can ill afford not to play a more active role in solving society's problems. The high expectations built into our culture—in large part a result of the achievements of business—together with the per-

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sistence of crime, novertv, illiteracy, unemployment, and the inequality of opportunity, put a heavy financial burden on business. They even jeopardize the survival of business as we know it.

One of the primary tasks of management is to foresee dangers and take steps aimed at avoiding or dealing with them. The health and vitality of an enterprise requires that threats be identified far enough in advance for appropriate action to be initiated. Management has an obligation to do what it can to correct or relieve conditions inimical to the long-term viability of the enterprise and of the environment upon which it depends. The environment presents opportunities as well as threats, and threats can sometimes be converted to opportunities. Some of the most serious threats, in fact, have the potential for becoming the greatest business opportunities. To turn one's back on the environment—to go about one's business while ignoring social needs—is to allow threats to go unchecked and opportunities to pass one by.

There are many reasons why big business can and must take the initiative in addressing society's major unmet needs. The main reason is that no other sector of society has such capabilities for effectively planning, assembling the resources for, and managing the large and diverse programs necessary today. Most government agencies are focused on single fields—labor, commerce, housing, agriculture, or urban development—and lack both the competence and the authority to confront social problems that require multifaceted solutions. This is equally true of education, foundations, and other non-profit institutions. On the other hand, these organizations can make essential contributions to broad-scale programs out of their own expertise and authority. The key, once again, is cooperation.

It is especially important that government participate financially in any endeavor of this type. By this I do not mean to imply that our government should invest heavily in private business, or that federal budgets should be increased solely for the purpose of financing industrial research and development. I do feel, however, that government funding would be highly appropriate for planning.

research, special facilities, education, and training during the initial stages of a program while its validity is being tested and proved.

But even if government funding were made available for these purposes, it would not be enough in itself to attract the needed corporate commitment, given the long-term payout typical of such ventures and the current emphasis on improvements in short-term earnings. In order to get corporations involved, legislation must be enacted to provide them with financial incentives, possibly in the form of tax credits. These tax credits might be offered to corporations which form consortia to address major social needs, devote some of their resources to urban and rural revitalization, spin off under-utilized technology for use by small businesses, and/or invest in seed capital companies to finance the start-up of small firms undertaking high-risk technological innovations.

Investors—especially institutional investors—can play a crucial role in this process by encouraging corporate management to view unmet social needs as business opportunities. The guidelines given investment managers should be modified in such a way as to remove some of the restrictions which now inhibit investment in projects with long-term payouts.

Foundations should be more open to the idea of working with business. Today, any meaningful association with a for-profit endeavor is anathema to most foundations. They feel that an involvement of this type would threaten their non-profit status, or they find profit-seeking enterprises somehow distasteful, or they worry that cooperating with business will tarnish their image of impeccable integrity and lofty ideals. As a consequence, most foundation-sponsored projects are too small and address only the symptoms, not the root causes, of major social problems, and the benefits they yield are temporary. More lasting results would almost certainly be obtained if foundations were to pool their enormous resources with those of business.

It seems reasonable that foundations could allot a minimum of ten percent of their investable funds to companies with a strategy of addressing major social needs. I

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am convinced that this could be done without exceeding
the bounds of tolerable risk, and that the level of such in-
vestments could logically be increased over time. Religious
organizations could follow similar practices in the manage-
ment of their own investment portfolios.

Education should heed its responsibility to stimulate in-
novative responses to the needs of society. Business
schools could be at the forefront of constructive change by
adapting their curricula to teach a method of strategic
planning based on social need, as opposed to the present
unimaginative and nearly universal practice of applying a
strictly return-on-investment approach. Even labor
unions—although this might be too much to hope
for—could adopt an attitude of greater receptivity to
measures designed to improve worker productivity; this
would be a great boon to the economy and to the workers
themselves.

Government, foundations, religious organizations, the
education establishment, and labor unions: all must
become more active in addressing society's major needs.
But the main thrust must come from business. In this
regard, let me re-emphasize that a strategy aimed at
meeting social needs should not be perceived as something
separate from or in addition to the traditional course of
business. Instead, it should be seen as an essential part of
management's obligation to maintain the health and con-
tinued economic viability of the enterprise. In our increas-
ingly complex society, unmet social needs present business
with a wealth of potentially profitable and enduring op-
portunities. Recognizing them as such—and acting upon
them—should eventually come to be regarded as normal
business procedure. So should large-scale cooperation with
government and other sectors, since this is the only way to
make the fullest use of existing resources.

The strategy I have been outlining here is one Control
Data has followed for years. In spite of the many
discouraging experiences I have had while promoting it, I
sense that a change is taking place in the climate of
business opinion. More business leaders seem aware that
responding to unmet social needs makes good business
sense, and more seem willing to consider participating in

consortium-type approaches to some of the problems that stand in the way of the American dream.

Business cannot do the job alone, but without active business involvement the job cannot be done at all.

Granted, there are a number of barriers, psychological and otherwise, that now inhibit the exercise of creative business leadership. I believe that these can be surmounted, however, and I also believe that the most effective means of doing this is by demonstrating success on a substantial scale, as Control Data has been doing. The strategy has worked for us; there is no reason why it cannot work for others as well.

Introduced: 5/26/83
Referred: Labor and Commerce

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4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 Relating to small business development
6 in the state.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS it is in the best interests of the state to maintain and
9 strengthen the overall economy of the state and to mobilize its full
10 productive capacity; and

11 WHEREAS declining oil revenues make it imperative that the state
12 develop a widespread economic base to decrease our dependence on a single
13 revenue source; and

14 WHEREAS small business development is an excellent and proven source
15 of new employment, industry, and entrepreneurship; and

16 WHEREAS many small Alaska-owned businesses are controlled by residents
17 with a strong financial, cultural, and social commitment to the state; and

18 WHEREAS additional costs associated with labor, transportation,
19 weather extremes, lack of infrastructure, high energy costs, and vast
20 distances place a special burden on small, Alaska-owned businesses; and

21 WHEREAS this burden places small, Alaska-owned businesses at a disad-
22 vantage when competing for construction and procurement contracts with
23 larger, nonresident businesses; and

24 WHEREAS the state is currently facing record unemployment and many
25 small Alaska-owned businesses are faced with bankruptcy, particularly those
26 businesses owned and operated by women, minorities, and other economically
27 disadvantaged groups; and

28 WHEREAS small Alaska-owned businesses face significant obstacles to
29 obtaining adequate credit, bonding, and loans; and

1 WHEREAS the state is currently engaged in state-funded public works
2 projects of unprecedented proportions; and

3 WHEREAS the scope and size of state-funded construction projects are
4 beyond the capacity of most small, Alaska-owned businesses to successfully
5 bid on; and

6 WHEREAS it is in the best interest of the state to assure that a
7 reasonable portion of state-funded construction projects be performed by
8 small, Alaska-owned businesses in order that the state and its residents
9 benefit from business generated by state funded construction projects; and

10 WHEREAS it is the declared policy of the state that government should
11 aid, counsel, assist, and protect, in so far as is possible, the interests
12 of small-business concerns in order to preserve free competitive enter-
13 prise; and

14 WHEREAS the security and well-being of the state cannot be realized
15 unless the actual and potential capacity of small business is encouraged
16 and developed;

17 BE IT RESOLVED by the Alaska State Legislature that the governor is
18 respectfully requested to appoint a task force to assess state policy in
19 contracting, local hire, and small business advocacy and to recommend
20 measures that will:

21 (1) emphasize and promote small business development and mainte-
22 nance in Alaska;

23 (2) assist in securing adequate sources of bonding, credit, and
24 loans for small, Alaska-owned businesses;

25 (3) assure, wherever possible, that state-funded construction
26 projects are specified, modified, and contracted in a manner to assure a
27 reasonable proportion of state-funded construction projects are performed
28 by small, Alaska-owned businesses; and be it

29 FURTHER RESOLVED that the governor is respectfully requested to direct

1 the attorney general to investigate and recommend measures available to the
2 state to assure that a reasonable portion of state-funded construction and
3 procurement dollars be contracted through small Alaska-owned businesses,
4 consistent with provisions of the constitutions of the United States and
5 the state of Alaska.