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“Goldman Sachs + Warren Buffett + \$500 million = Not many jobs yet.”

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GOLDMAN Sachs announced in 2009 that it would invest \$500 million and partner with Warren Buffett to help small businesses grow and create jobs. The response was enthusiastic: Certainly with that much star power, business genius and capital, the engines of enterprise would start cranking out jobs right and left.

Except that they haven't. More than two years into the five-year program, which planned to reach and nurture 10,000 small businesses, just 5 percent of that goal has been met, and Goldman is reassessing the amount of time it will need. And what of Buffett, who has maintained an active role (though not a financial one) in the plan? The often chatty co-sponsor declined to comment.

The program, called 10,000 Small Businesses, is based on the latest in job-creation research by Harvard Business School's Michael Porter, whose organization Initiative for a Competitive Inner City has claimed success in this field. Candidate businesses would be screened for growth potential and would receive up to 100 hours of education designed by experts on entrepreneurship at Babson College; separately, some would get capital from Goldman in the form of a loan. Layered onto that would be networking and mentoring

help and the on-the-ground strength of local community-development finance institutions, which have experience lending to underserved populations that struggle to get loans.

Sounds like a winning formula. But there's scant evidence community-based lending creates many jobs,



according to Paul Kedrosky, senior fellow at the entrepreneur think tank Kauffman Foundation, who calls most of these programs “train wrecks.” Studies indicate that the businesses best at creating jobs are inherently more productive (think a revolutionizing tech company rather than a local landscaper) and usually have no trouble borrowing money. For other businesses, it

doesn't matter how much coaching is given or money is lent—there's a ceiling on their growth.

Approaching the halfway mark of the Goldman-Buffett effort, it looks like the skeptics may have a point. The program has rolled out in six cities: New York, Houston, New Orleans, Chicago, Los Angeles and Long Beach, Calif. But so far, only \$20 million has been lent, and only 500 small-business owners have taken part in the program. As for job creation, Goldman declines to put out totals, but reports from the field look modest at best—the New York branch of the program, for example, says its 82 graduates have created about 200 jobs.

Dina Habib Powell, who oversees the program for Goldman, says part of the problem is competition from other government and private job-creation efforts: “It's a crowded marketplace of solutions.” Still, Powell says Goldman is pleased with its results so far and points to successes like Jessica Johnson, who plans to hire 15 more workers for her Bronx security firm Johnson Security Bureau. “We want to take the time to help businesses grow,” explains Powell. Porter describes this phase as a gestation period, since the program is rigorously vetting applicants to focus only on those poised for rapid growth. “We aren't talking about mom-and-pop businesses,” he says.

To see what kind of progress was taking place, I went to New Orleans to

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talk to some of the program recipients. While I saw promising businesses, few seemed to fit the ideal of using the program's resources to generate fast-lane job growth. For example, Betty Nguyen-Archote and Donovan Archote received a \$50,000 Goldman Sachs loan to help renovate their Huey P's Pizzeria. But they say they were too busy to attend the business classes. As for scaling up, they'd like to add a sushi bar to the Asian restaurant they own, but not with the Goldman money. "We're a mom-and-pop," says Betty (something Porter might not want to hear). "Like a lot of Americans, we want to pay down our debt."

That's a common theme: Small businesses and their owners have been in debt-reduction mode, to the dismay of those trying to juice up our nation's anemic growth. What's more, it's not clear the Archotes needed Goldman's money: They were among a handful of entrepreneurs I spoke with who had

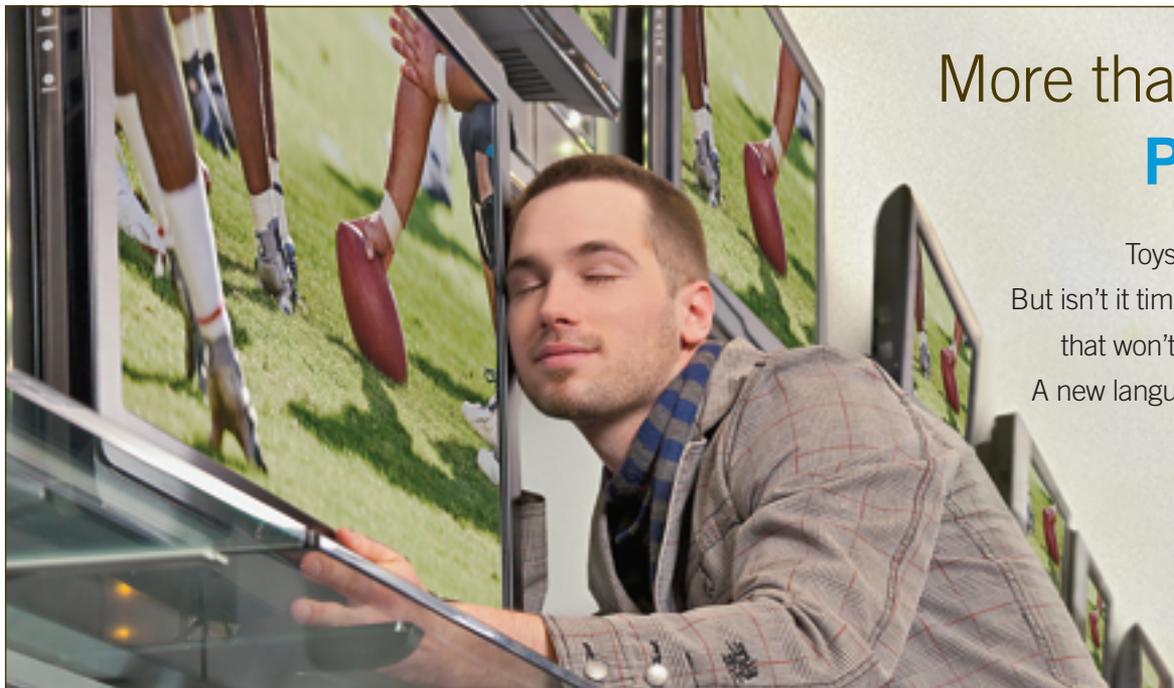
already qualified for community-development loans before the program came around, so Goldman was not a game-changer.

There are exceptions, of course. Gregory Glasper has a car-detailing and bail-bond business ideally located near a New Orleans jail. He wanted to buy a \$465,000 parking lot he was also operating. After two banks turned him down, Glasper got a \$365,000 loan from the Goldman program. But he didn't attend the classes, nor does his strategy include rapid expansion. He may hire a parking-lot attendant, but not anytime soon: "I need to make sure I can pay the bills," he says.

At least one recipient scaled back her payroll after the Goldman program. After Hurricane Katrina, Simone Bruni, a former party planner, started an excavation company, painting her heavy equipment pink. She attended the Goldman classes, which she says taught her to make

better operating decisions. Bruni says she met Buffett after he attended her class's graduation; when she gushed that he inspired her, Buffett kissed her hand, saying, "No young lady, you inspire me." But having analyzed her finances, she decided it would be wiser to pay fewer people. She bought some equipment she'd been leasing—a trailer and an 18-wheeler, in pink, of course—which meant she no longer needed some of her subcontractors.

Goldman says it has no set threshold for valuing how much a company should grow. But when it launched its program, it stressed that its mission was to invest in businesses poised to create jobs. Since then, it may have had to confront how hard that is in practice. What Goldman doesn't want to do is what Kedrosky says many of its predecessors have done: "Just say 'whatever,' and [give] its cash and education to a hodge-podge of businesses." ☺



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