

## ECONOMIC DEVELOPMENT AND JOB CREATION

Testimony Presented to the Pennsylvania House Commerce Committee

By

Frank Pellegrino, Executive Vice President

Primus Technologies Corporation

Thursday, March 11, 2010

Lycoming College, Williamsport, PA

It is a pleasure to join with our fellow business and governmental leaders and developers today to discuss the north central Pennsylvania business climate and region. I sincerely appreciate the hard work and dedication of House Representative Rick Mirabito of the 83<sup>rd</sup> Legislative District of Pennsylvania and House Commerce Committee Chairman Representative Peter Daley for the invitation and for listening to the people of this great Commonwealth. It is by listening and learning from the people that we will be able to put into action the plan and the resources with energy and vigor to accomplish the very difficult tasks at hand of creating jobs and economic revitalization of this great Commonwealth.

I am Frank G. Pellegrino, Executive Vice President of PRIMUS Technologies Corp located in Williamsport , Penna. I am a founding executives of PRIMUS Technologies and I am extremely excited to be with you and so grateful to our governmental officials for this invitation. PRIMUS Technologies is a small-business involved in manufacturing electronics and electronic-subsystems for a variety of applications in the medical, telecommunications, automotive, military, aerospace and industrial controls markets. Our products are sold and shipped throughout the world and we employ 475 talented and dedicated men and women in Williamsport of which approximately 68 of these individuals are degreed in engineering and engaged in specific engineering driven services. I am deeply grateful to each and every one of our employees for the work that they do and the contributions that they make to our business and the commitment that they make to our customers. I am also so grateful and appreciative to each one of our customers for their faith and confidence in PRIMUS. Our products are found in life saving situations, communication gear, military and defense applications, aerospace, medical application and transportation events. They are very critical products and must be of the highest possible quality, error free every time. Our customers depend upon it and lives depend upon it.

We trade our name on our quality reputation and every day and every minute the products we produce are saving lives.

It has been so far a 17 year journey, a dream of many and the hardwork of so many. But realize that this journey never ends, it must be a journey without end and one with continued vision and excitement. The PRIMUS factory and business in Williamsport in 1993 was known under the name of GTE SYLVANIA, and the corporate offices outside of this area were located in Danvers, Massachusetts. The corporate officials had given a directive to close the Williamsport plant. It was not part of the new corporate owners-(OSRAM/Siemens) key core products. Please realize that this is much more than just a statement that they were going to close this plant, it was fact, as SYLVANIA at one time had more than 5 factories in Williamsport and 14 throughout the State of PA. Today there are no Sylvania plants left in Lycoming County and in our great State there are only 4 left.

But 3 visionaries- Jerry Sullivan, Bob Walker and Frank Pellegrino, understood risk, hard work, commitment and contained the entrepreneurial spirit that I want to talk to you about today.

Let's spend a little time on some great people in this country that also possessed this entrepreneurial spirit. How about Henry Ford, Andrew Carnegie, Andrew Mellon, Ewing Kaufmann, Rockefeller, Bill Gates, J. Paul Getty. These men have a lot in common to Pellegrino, Walker and Sullivan. Call them risk takers, interventionists, inventors, dreamers, doers or catalysts.

I think that you might classify the list that I read as some of the great businessmen of the world. I believe that they represent much more than the best minds of the world. These philanthropists, are much more than just givers, they gave back to society time and time. And today we remember the money and fortune they gave and give, to help the common good of our society and their fellow man. But they are truly much more than just givers.....They are creators of opportunity. They too were Entrepreneurs of their time. They were entrepreneurs because their ultimate goal was to create jobs, to give the necessary skills and to educate, to train and to teach. They give what I call "THE BREATH OF FIRE", the energy to succeed, which comes from their vision, to empower the worker, to create opportunity for the worker and to succeed in society by creating jobs and opportunity. Today, we want to think and develop a plan of how we together can create the rebirth of our entrepreneurs today to help society, to help this Commonwealth and Nation to succeed..

That truly is what this PRIMUS story is about. An entrepreneurial endeavor to competitiveness, and to job creation. To give, to train, to educate.....TO create a spark in young men and women for a desire to achieve and to grow the business so that many can have an opportunity. Our PRIMUS team has its pulse on many items. At PRIMUS we produce many types of electronics and I would like to relate to some of the products that we produce for one of our customers. The customer is GOODRICH Systems and Sensors with factories in Minneapolis, and Burnsville, MN, and Vergennes, VT. Many of these electronics are found in the cockpit of the fighter jets or in Boeing's 737 or Airbus A120. Actually these electronics are located throughout the entire aircraft from cockpit, to landing gear, to fuel sensors, to de-icers. When we focus on the cockpit, these electronics require that the fighter pilots or the professional pilots monitor many instruments doing many different things. They are multiplexing to the max and we are assuring and guaranteeing with the quality of the product that we produce that this service is available to them 24/7, to handle the most difficult tasks. No slip ups can occur; as at a fraction of a second the most dangerous situation is at hand. Life threatening yes. So like these pilots, the role of the entrepreneur is very similar, multiplexing, using all available options and a keen desire to compete and grow. You will see that I think Government overall has a role and it is one of these key indicators or variables in the cockpit.

I think that everyone would agree that entrepreneurs are the business engine in our society. I would like to take a few facts from the SBA's web site. As 7 in every 10 new businesses/jobs comes from the small entrepreneur. Last year (2009) alone 700,000+ new businesses were started, and 490,000 (70%) of them were responsible from the entrepreneur, the small guy, the risk taker. According to the U.S. Small Business Administration, since the mid-1990s, small businesses generally have created 60 to 80 percent of the net new employment in the United States. Further, they found that net job creation in the immediate years following the 1990-1991 and 2001 recessions stemmed from employment generated by small firms with fewer than 500 employees.<sup>1</sup> Therefore, it would seem that one good way to boost economic recovery is to encourage more business creation. To do this, policymakers need to understand the backgrounds and motivations of the founders of such businesses. They also need to understand what inhibits others from starting businesses and becoming entrepreneurs. A research study was conducted by the Kauffman Firm. This research was based on a survey of 549 company founders in a variety of industries, including aerospace and defense, computer and electronics, healthcare, and services.

While the research cannot be generalized strictly to the entire population of entrepreneurs in the United States, it is meant to be illustrative of the backgrounds of entrepreneurs in industries that we expected to be higher growth.<sup>2</sup> The survey of these founders of businesses had made it past the startup stage and the research focuses on the successful businesses. One interesting and overwhelming fact as a finding is that, “the vast majority (86 percent) of entrepreneurs ranked the assistance provided by the state or region as not at all or slightly important.” We need to create meaningful programs by the state, so that it does influence these start ups or businesses. Why is it overwhelming (86% of respondents) on state assistance being classified as not important. Out of this study, it is also necessary to look at the inhibitors to these entrepreneurs so that we can attempt to remove these obstacles. The survey specifically asked the company founders to provide their opinion on the factors that prevent start ups, this perspective could be no better presented than from those that have already faced the difficult and tedious task.

### **Inhibitors to Entrepreneurship**

- The highest-ranked factor was the willingness or ability to take risks. 98 percent said this was an important, very important, or extremely important factor, and 50 percent ranked this as extremely important.

This clearly indicates that these company founders considered entrepreneurship to be a risky endeavor.

- The second highest-ranking inhibitor was the time and effort required. 93 percent ranked this as an important, very important, or extremely important factor. This mirrors the views they expressed about their own challenges.
- Difficulty in raising capital was considered to be a significant inhibitor (by 91 percent of respondents), as were business-management skills (by 89 percent) and knowledge of how to start a business (by 84 percent).

2. The Survey of Business Owners from the Census Bureau is a good source of overview statistics on business owners in the United States but is only completed every five years and has very limited space for questions - <http://www.census.gov/econ/sbo/index.html>. Other private surveys, such as the Kauffman Firm Survey, also have information on owner backgrounds but are focused on a different population of businesses and longitudinal data collection - <http://www.kauffman.org/research-and-policy/kauffman-firm-survey.aspx>.

Not too long ago, but think about the late 70's early 80's you would expect to have about 4.3 jobs before you were 65. Today graduating in 2010, you are expected to have 4.4 jobs before you are 30. So when I look at the college graduates of today and see this really diversified bracket of men and women, young and old, and many non-traditional students graduating, you

must realize that in less than 9 years from graduation you will have experienced a new experience every two years. Wow! What a difference in less than a 20 year span. Times do change, I would have never predicted this or even thought that this could become fact. I remember the days of graduating from college and landing a job working for IBM or GE and you would be their for life or until you retire.

Society in total has such an impact on the growth, vision and outlook of the United States. How in our society do we encompass this vision or this dream of entrepreneurship –What is our society’s drive that forces us to be competitive and to respond to the competitive threats throughout the world. For sure it is changing and will always be changing but today how is it postured. When you look at the 3 inhibitors to start ups, you may wonder if anything could be done to change or alter these obstacles. All of us know and understand risk, but until you fail you may never really fully understand risk. Is there anything that can be done to educate and remove some of the risk. Absolutely. You also know the saying, “no risk, no reward”, but that may not always be totally truthful, as you must understand and control the risk so that it does not control you. The second point is time and effort. For sure here if you are not committed to the project and ready to dedicate the energy and time to the project it will fail. Attention to detail. It is truly part of the spirit. Hard work and dedication are keys to success. Finally, the ability to raise capital and to be fully funded is a great issue. From experience, you have to have staying power and you have to be able to make it to the next step. You can not pull the plug too early. Here in lies the largest contributor that Government or agencies can assist. Knowing the risk but also understanding the risk that leads to the rewards and providing the funding easily enough with out layers and layers of red tape. The ability to raise capital, get capital is the number one failures of start ups in the small business / entrepreneur market. Underfunded, undercapitalized business will not succeed.

Let’s take a look at Higher Education in our country. They play such a huge roll in the entrepreneurial spirit and environment that we need to foster growth of job creation and economic revitalization here in the US.

Colleges and Universities---This is one starting point. Think about the Intellectual property push out that begins with these colleges and universities. Typically the SSHE system and the Private Colleges and Universities would be perceived as anything but entrepreneurial. But when you really get down to it, they are a frontrunner and supportr of Entrepreneurial dreams. They are an engine of creation of **Intellectual Property, Invention and creation**. Look at two educational institutions in our areas, Pennsylvania College of Technology and Bloomsburg University, and

how truly they are entrepreneurial. The start of a very competitive, critical thinking / application specific program such as the technology programs at Penn Tech (plastic polymers) and at Bloomsburg University the 5 year Coop Program EET (Electronics and Engineering Technology) program. This is one way on how the IP of these institutions are pushed out and other ways it is pushed out to businesses is for very critical thinking applications. All State Universities and private colleges and universities are responsible for the leverage of the start ups and the application of very critical thinking, research and application. In our area the EDUCATIONAL INSTITUTION's role is grand and so important. They are producing a product, they are educating, they are motivating and inspiring the leader's of today and tomorrow. This IP that leaves with every student is so important. About 8 years ago, I was contacted by a Physics Professor at Bloomsburg University, Mr. Jim Moser who wanted to create a viable engineering degree program at Bloomsburg University that would produce application specific engineers. I was excited about this program as none existed in our area and for engineers to stay in our area they must have a desire to be in this area. What would be more meaningful than a rural university like Bloomsburg University to have an engineering program. With the help of Pennsylvania's SSHE and the Legislature to help fund this program within 6 years we were fully Accreditation Board for Engineering and Technology (ABET) accredited. This accreditation allows our graduates to sit for the professional engineering certification test upon completion. The winners in this endeavor is great, as the state won, the citizens of the Commonwealth won, the corporations in our state won and the graduates won. Not only does our company assist with COOP students and interns at Bloomsburg University but we also win with the ability to hire these graduates that have the desire to want to live and be a part of Northcentral Pennsylvania and have a desire to remain here and not leave. Let's not forget the ol' Brain/Drain phenomena. And yes Government support of these institutions and of the State System of Higher Education is funding this link of IP and the push out to the entrepreneurs of today and tomorrow. Government must assist here and is an important piece, an important link of the American University.

Do you remember the IPO's-those public offerings of the 80's. Today hardly heard of. Why? The climate is not ripe for these to be happening. However, many of those start ups were than acquired by BIG Business. The lethargic big companies were being left in the wind, but they, the Big Giants, have found a way to fund the entrepreneur without destroying their spirit. Could they develop that spirit, not easily(TO LARGE, TO SLOW, TO LETHARGIC) but through

funding / acquisition--- BIG BUSINESS HAS TAKEN ON A NEW ROLE, it is a different approach. Business is a catalyst. By acquiring and letting it alone they are able to maneuver and compete. This is still evolving today but many are finding the change in Banking to be hurting this immensely. The economic uncertainty of today and the last 24 months has hurt Businesses ability to acquire start ups, infuse the economy with new capital goods orders and increase the labor pool with additional hirings. Businesses need tax relief or assistance to spur the economy or to regain the confidence of the late 80's and 90's.

What we have unfolded thus far is that both the AMERICAN UNIVERSITIES and COLLEGES AND ALL BUSINESSES PLAY A VITAL ROLE IN and ARE TWO SIDES OF THE TRIANGLE.

I am not sure that we ever could get anyone to say that government is anything but entrepreneurial. BUT let the facts be known, government is that third side of our triangle and the completion of the triad of 3 working forces. Government is responsible for the push out of money into research, the push out of money into education, the spark for businesses confidence. As the state of Pennsylvania cooperated with the state system of Higher Education and the two educational institutions that we discussed earlier, Pennsylvania College of Technology and Bloomsburg University to assist with projects and the creation of the Plastic Polymers and EET programs it is truly summarized as entrepreneurial capitalism. Government is the assistant, is a catalyst, is a spark to foster the entrepreneurial vision.

The belief of how we educate our children is a culture change. Ever changing in the US, but education is the competitive advantage. All of this has developed with an uncontrolled or undirected policy. This is what we as AMERICANS like. The deregulation of our economy, the mobility of our workforce, the movement of our pensions for our control and protection and flexibility, little Governmental intrusion. Not one policy by BIG Government, all separate occurrences with some government policy intervention and to realize that these individual occurrences have had a system wide effect. It is in bad times that we create change or are forced to change. It is in bad times when the AMERICAN ECONOMY renews itself. It is entrepreneurs that pull us out of our recessions and enhance the change.

JOB tenure is shorter, unemployment is at record highs, much shorter unemployment periods is our dream and to get back to 4.7% or less is a dream, if only EUROPE could achieve this, as they too have numbers over 10%. This unemployment in Europe is repeated year after year, study Germany's unemployment.....

Remember notion of failure in not life threatening. The more we do it, the better we get at it. Failures and successes. You have to admit we learn from our failures and we learn from our successes. Try, try and try again is our motto.

This spirit is your ticket to entrepreneurship, it is you competitive advantage. So one role of Government as you see in Pennsylvania is linked directly to our businesses by offering specific educational tax incentives. The EITC program gives business a chance to support private education with EITC funds. However the real intent here constantly gets watered down, and the government cuts this, it hurts our push for the best education possible. It hurts to not improve both public and private K-12 education and to develop students that are life long learners and to put out a product that is not only truly competitive but superior to other countries. We can't let education be status quo, we need to be thinking more round the year education, more education not less and ways to let businesses help private/parochial education as it is truly producing a better product. School Choice makes sense as this education is our society's chance at changing and becoming even more competitive.

THREE POINTS that I would like to specifically make regarding Job Growth and Economic Revitalization...

POINT 1: This American Dream-individual dreaming it is a factor in growing our economy. The promise of having nothing and ending up with something. You can start a business, you must have critical thinking skills, you must have application specific education. The desire for home ownership, truly an American Dream. Look at Bill Gates, or look at Andrew Carnegie, just a young boy with a dream and what have they created-----Some of the largest foundations giving away millions every day to help society. Everyone wins and the American Dream comes alive. Entrepreneurs / True Visionaries exist today and Government must do everything to keep these dreams alive and in the end will reap millions in the future. Government must have



programs without red tape to help realize the American Dream, supporting education, supporting re-engineering the State Universities with programs that are application specific. What are the State Universities doing in terms of Geology and Marcellus Shale and making it quite important for our area, what are they doing for Environmental Sciences and Protection of our Environment.

POINT 2: Economic Revitalization with an emphasis on Capitalism to have new jobs, new futures, new education, peace throughout the world. This is a belief for everyone on the planet. As an entrepreneur, your ticket is the participatory spirit that needs to be offered, and to have the vision and in knowing that the American Dream of home ownership, college education, and owning your own business are a part of the process. Government must assist with this greatly. To provide programs that are not strapping our citizens, tax relief for job creation, rewarding the entrepreneur to take a chance, to have loan or grant programs that are easy to take advantage and not full of red tape and regulations.

AND FINALLY POINT 3: This SPIRIT of rebirth – the Pheonix rising up out of the ashes— The vitality of rebirth, the American Economy entrepreneurial energy needs to be a culture in our society, an educational process, an endeavor supported by all. To accomplish this and understand that success is beyond our imaginations. The idea, the risk that you undertake and the future for pay off is greater than ever. FEEL IT - LIVE IT ---- BE IT. Government must assist and not hinder this ideal. What are the programs to help with this process?

Education, Business and the Entrepreneur are the Triad to get this economy moving in the right direction.

Now and in summary I would like to reiterate some of my experience with State Government in particular and what we have to do to improve.

The red tape for PIDA loans, it takes excessive lawyer fees to close these documents for loans ranging from \$100,000 to \$2 million. Too much red tape and too long of a process and too much clutter. Yes we need responsibility but the red tape is a hindrance. I see this as well at our local Shopsteading Loan Programs, to get a \$50,000 loan for a small start up business just can't afford the paperwork and legal fees to apply.

Pennsylvania's support of private K-12 education is always being cut, and one example is EITC. It started out as a great program, gets diverted even further to have a funding source for public education and taking away dollars and now is being cut further. This is a no-brainer and every dollar will be returned two fold.

Some quick points on programs that would promote the TRIAD discussed.

- Offer a payroll tax holiday so that young companies can afford to hire and expand. Job growth is so important but at times the tax consequences is such a hindrance.
- KOZ expansion, these zones create real opportunities and the payback to all parties are immense.
- Are we supportive to our graduates and especially our Ph.D's candidates. Can we create entrepreneur fellowships for recently graduated Ph.D.s, giving them an opportunity to commercialize their research, free rent and office space, an incubator for growth.
- How do we get more IPO's quicker. We need relief, not only certain regulation exemptions but funding and risk relief. Sarbanes-Oxley is certainly strangling some of the young companies.

The study, "The Economic Future Just Happened," found that more than half of the companies on the 2009 Fortune 500 list were launched during a recession or bear market, along with nearly half of the firms on the 2008 Inc. list of America's fastest-growing companies. The report also suggests a broader economic trend, with job creation from startup companies proving to be less volatile and sensitive to downturns when compared to the overall economy.

I received a save the date card from the Ben Franklin Technology partners at Lehigh University, it said "Microsoft, McDonald, IBM, GE, Disney, HP, Trader Joe's, Federal Express, and MTV all have a common thread of being started in tough economic times or either a recession or tech bust." How true and how confirming to the study of "The Economic Future Just Happened". "Recessions don't need to be a time of doom and gloom. Innovation leads to Transformation;" and that requires that we are all working together.

History has proven this time and time again: new firms, small businesses, innovative companies create new jobs and fuel our economy. Policies from the Federal Government, State and Local Government must support entrepreneurship, which will lead to an economic recovery.