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Letter from W.B. Cherkasky to D.D. Pearsall Re: Transcript of Remarks for correction

William Cherkasky

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MEMORANDUM

July 8, 1977

Mr. Duane D. Pearsall
President
Statitrol Division
Emerson Electric Co.

RE:

This transcript of your remarks is furnished to you so that you may review your testimony (or answers to questions) and make necessary typographical and grammatical corrections. Other minor clarifying changes will be accepted if they do not change your original statements.

Please make all corrections in RED (OR ANOTHER CONTRASTING COLOR) DIRECTLY ONTO THE TRANSCRIPT ATTACHED. If a lengthy insert should be necessary, please staple it to the page of origin with point of insertion clearly marked.

Kindly return the transcript WITHIN FIVE DAYS to the attention of Mr. Frank J. Merendino, editorial assistant, U.S. Senate Small Business Committee, Room 424, Russell Senate Office Building, Washington, D.C. 20510.

Respectfully,

[Signature]

William B. Cherkasky,
Staff Director.

P.S.: Please supply the Committee with any documents or information which may have been requested during your appearance. A self-addressed, franked mailing label is enclosed for your convenience in returning the transcript.
Senator Humphrey. I believe we have the Small Business Man of the Year with us here, too. We welcome you, Mr. Pearsall.

STATEMENT OF MR. DUANE D. PEARSSALL, PRESIDENT,
STATITROL DIVISION, EMERSON ELECTRIC COMPANY

Mr. Pearsall. Thank you, Senator, it is my privilege to be here.

My name is Duane Pearsall and I am President of the Statitrol Division of Emerson Electric Company.

I want to very quickly identify that Statitrol did not receive the award of small business as being part of the Emerson Electric Company. We were quite a small business and only as of March did we become a Division of Emerson.

Rather than read the report which is part of the record, I would like to only summarize that my purpose in being here is simply to testify to the fact that our company by coincidence reflects a characteristic in our economic system that identifies a circumstance where small business or the intermediate business sector is being eroded from our whole business structure.

Our company started out making smoke alarms -- home smoke alarms. We were the first to introduce a low-cost unit. We were successful in encouraging code agencies to require home smoke alarms and we demonstrated the life safety
characteristics of such a device. Today there are probably fifty manufacturers of similar devices, most of them major corporations in the United States. Our other independent competitors were gradually acquired by larger businesses and we found ourselves very visible as a small company with a unique product in an explosive market.

As a result we had to elect what alternatives we had to stay in business. We had previously gone through the SBA programs of loans and I share your concern for paperwork involved in getting an SBA loan, Senator, and was disturbed to learn that your credit rating was as bad back in your state. Mine was bad, too, but with good justification.

(Laughter)

I would have to say that the paperwork involved in getting a loan through SBA was horrendous. I think they call them 502 loans -- and ended up with five mortgages, one of which we held ourselves, if you can imagine such a complicated structure. But it was effective, it worked. It was expensive and a lot of paperwork. Subsequently we went into a 9 percent SBA guaranteed loan which is supposed to be a simplified form but this was some three years ago and the paperwork was about six or eight inches deep at the final closing. That is being reduced and I commend Senator McIntyre for his efforts in paperwork reduction.

We reached a crossroads, as I started to say,
IN ORDER

on where we should go to stay in business. We were what
you might term a medium or intermediate size company growing
out of a small business category. Normally such a company
would have access to public funds in the public market, but
because of the impediments created through the ERISA program,
not the type that have been discussed today in terms of
paperwork, but by the prudent-man-rule, investors are not
allowed (those controlling pension funds) were not allowed
to invest in small businesses, as such a decision would not
be a prudent decision. As a result, the public market, because
of that reason and also because of SEC 144 rules and similar
regulations, the public market is not available to intermediate
growing businesses today. I think the statistics are clear
in the SBA report—the task force report, which is already
a matter of record, that in 1972 there were some 418 businesses
that went public which acquired capital just under $1 billion.
Three years later there were only four businesses that were
able to go public acquiring capital under $16 million. Not
a reduction but a precipitous drop-off in the availability of
public funds to intermediate growing businesses.

Senator Humphrey. What was the time span?

Mr. Pearsall. 1972 there were 418 businesses and
1975 there were four. Part of that is the obvious recession,
but a big part of it was the 1974 ERISA legislation which
had the unintended effect of creating a major impediment to
pension fund investing in small business either in the market or independently.

So our alternatives were perhaps to start an ESOP program or an ESOP. That, historically, is called a low-multiple bail-out method. It is nothing new. It has been touted recently but it really is not new. And because our major stockholder was an SBIC, it was not a reasonable alternative. It would not produce the multiple on earnings necessary to relieve a major stockholder.

We looked at leverage assets as a means of increasing debt to allow us to build machinery, to automate production, to meet this major competition. This was not possible because we are fundamentally a labor-intensive company. So the remaining alternative which was the one we chose was to become acquired by a big business, and our choice was then big business, and we are very pleased with Emerson Electric. I do not want to reflect any negatives. They probably saved us from going bankrupt -- not yet, but we would have progressively gone the way of the hand-held calculator. So we are a typical example of a technically oriented, growth-oriented, intermediate size business that had no alternative but to become part of big business, and we are proud of it at this point. But I look back at some of the statistics of the SBA task force which I was privileged to participate in last
through the SBA staff we learned that in the 20 years, from 1956 to 1975, the total invested capital in business in the United States went from 1.3 times the investment in businesses under 50 million to the reverse in 1975 -- 3.1 times the capital, invested capital, is now in big business as opposed to small business. This is not a criticism of big business, but it does demonstrate that because of the unintended effects of legislation we are institutionalizing our business by a natural effect of legislation.

Now, I agree wholeheartedly with Dr. Lesher, what my main concern is and I want to emphasize, I am a member of the Council of Small Business of the U.S. Chamber. That is an organization which has been in place just one year. It is made up of about 70 small businessmen that are turned-on small business that are reacting to some of the bad effects of legislation up to now, and the Chamber has responded beautifully. We are tickled to death to be part of the U.S. Chamber in making the united effort to correct some of these impediments.

What my concern is is that this legislation looks good to me, it really does, because it improves the visibility of small business in the Congress, it establishes some clear objectives, I think, but I am not experienced in reviewing legislation, and I have learned to respect the Chamber's
analysis and their depth of study of legislation and its long-range philosophical effects and tangibly predicted effects.

What I am concerned about is that this legislation may still have some unintended effects that could create some negative problems to small business. I cannot see them, but I lean to the experience of the chamber and I just add a word of caution that I would hope that this legislation, oriented for the benefit of small business, is carefully reviewed before it is released.

I would like to add for the benefit of any later questions, my experience has been on the SBA Task Force last year. I have been cited by OSHA twice for some of the circumstances that Mr. McDonough mentioned this morning -- a disgruntled employee, been fined once for $459, we have been plagued by ERISA legislation not only from the paperwork. Let me give you some figures -- in a company of last year 650 employees, it cost us $13,000 to administer the paperwork of ERISA. I instructed our Chief Accountant to keep a separate record. Now the company absorbed that last year, but normally a plan is structured so that those costs are deducted from the employers contribution to the plan. That would mean that those 650 employees of which about 400 were "participants" in the plan would have paid $13,000 for the administration of ERISA which did not improve the employees' benefits. It impeded the employees' benefits, and I can cite
two or three circumstances of that. In addition of course they pay their taxes to support the agency.

So with that background I just want to emphasize that it is a real pleasure and a privilege, sir, your opening remarks gave me a little thrill this morning. I appreciate those.

Senator Humphrey. Thank you very much.

(The prepared statement of Dr. Lesher and Mr. Pearsall follow.)