



5-1-1989

Has The Small Business Administrations Minority Business Development Program Been Successful?

Rese E. Farrish Jr

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HAS THE SMALL BUSINESS ADMINISTRATIONS
MINORITY BUSINESS DEVELOPMENT PROGRAM
BEEN SUCCESSFUL?

BACHELOR OF ARTS
THE UNIVERSITY OF NORTH CAROLINA
CHARLOTTE, NORTH CAROLINA, 1986

AN INDEPENDENT STUDY SUBMITTED TO
THE GRADUATE FACULTY OF
THE UNIVERSITY OF NORTH DAKOTA
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION

THE UNIVERSITY OF NORTH DAKOTA
GRADUATE CENTER
MINOT AIR FORCE BASE

BY
RESE E. FARRISH, JR.

MAY 1989

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APPROVAL

This independent study submitted by Rese E. Farrish, Jr. in partial fulfillment of the requirements for the Degree of Master of Business Administration from the University of North Dakota is hereby approved by the Faculty Advisor under whom the work has been done. This independent study meets the standards for appearance and conforms to the style and format requirements of the Graduate School of the University of North Dakota.


Faculty Advisor

PERMISSION

Title: HAS THE SMALL BUSINESS ADMINISTRATIONS
MINORITY BUSINESS DEVELOPMENT PROGRAM BEEN
SUCCESSFUL?

Department: School of Business and Public Administration

Degree: Master of Business Administration

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Date 4 May 89

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS	v
ACKNOWLEDGEMENTS	vii
ABSTRACT	viii
Chapter	
1. INTRODUCTION	1
2. THE 8(a) PROGRAM	4
3. LEGISLATIVE HISTORY AND DEVELOPMENT OF THE 8(a) PROGRAM	9
4. ORGANIZATION AND OPERATION OF THE 8(a) PROGRAM	16
5. SURVEY OF GRADUATES FROM THE 8(a) PROGRAM: REPORT OF THE COMMITTEE ON SMALL BUSINESS, UNITED STATES SENATE	37
6. CONCLUSION	61
APPENDIXES	64
A. INTERAGENCY AGENCY AGREEMENT BETWEEN THE U.S. MINORITY BUSINESS DEVELOPMENT AGENCY AND THE U.S. SMALL BUSINESS ADMINISTRATION	65
B. SYNOPSES OF SELECTED PAST STUDIES OF THE 8(a) PROGRAM	69
BIBLIOGRAPHY	75

LIST OF ILLUSTRATIONS

Figure	Page
1. The Role of MSB/COD Within SBA	17
2. Small Business Administration MSB Process.	20
3. Organization of the MSB/COD Program Nationwide	24
4. Organization Chart Small Business Administration	28
5a. Firm's Primary Products and Services at the Time of Certification	42
5b. Firm's Current Primary Products and Services	43
6. Current Condition of Your Company	45
7. Condition of Company by the End of 1987 ..	46
8. Aspects of 8(a) Program that are Helpful .	48
9. How Helpful Were Program Components	49
10a. Strongest Aspects of 8(a) Program	50
10b. Weakest Aspects of 8(a) Program	51
11. Assistance Received From MBDA-BDC Prior To or Since Graduation	53
12. Helpfulness of MBDA In 8(a) Firm's Transition to Private Sector	54
13a. Number of Federal Government Contracts Business Received Since Graduation	56
13b. Number of State and Local Government Contracts Business Received Since Graduation	57

Figure	Page
14a. Number of Commercial Contracts Business Received Since Graduation	58
14b. Number of Companies from which Commercial Contracts Were Received Since Graduation	59

ACKNOWLEDGEMENTS

I wish to express my sincere thanks to the entire staff of the University of Nort Dakota Graduate Center at Minot Air Force Base for their guidance, patience, and encouragement.

Appreciation is extended to Betty Martinez for her patience and cooperation while typing this paper. A special thanks to my wife, Taffy, for her encouragement and understanding during the course of this study.

ABSTRACT

Minorities are less likely to own a firm than their non-minority counterparts and many continue to form businesses with little growth potential. The Small Business Administration (SBA) under the Section 8(a) Minority Business Development Program is responsible for assisting small minority owned businesses in making a successful transition into the competitive marketplace. Using congressional reports, surveys, and independent reports, this study attempted to answer the question, "Has the 8(a) program been serving its purpose? Is it working?" To answer this question several problem areas were discussed. These centered in two areas, problems within the SBA and problems encountered in the 8(a) program as viewed from 8(a) program graduates. Viewing problems from both areas aided in reaching a conclusion. The 8(a) program does work. It is serving its purpose by aiding hundreds of small minority owned businesses transition to the private-sector marketplace.

CHAPTER 1
INTRODUCTION

Purpose

The 1988 Office of Advocacy of the Small Business Administration (SBA) Report "Small Business in the American Economy" states,

Research studies completed during the past eight years indicate that relatively small number of minority-owned firms are a result of lower business formation rates and not high closure rate.

The SBA Section 8(a) Minority Business Development Program is designed to assist minority small businesses. These businesses must be owned by socially and economically disadvantaged persons. Section 8(a) is designed to develop minority small business enabling them to compete in the private sector marketplace. The purpose of this study is to see if the Small Business Administration and the Section 8(a) Program are working to develop competitive minority-owned small businesses.

Problem

This independent study will analyze the problems inherent in the SBA and the Section 8(a) program. It will attempt to identify and explore key problem areas within the SBA pertaining to its organizational dynamics and daily

operations. The study will also seek to identify and analyze the problems in the 8(a) program from the perspective of 8(a) program graduates.

Justification

The SBA and 8(a) program have consistently been in the media and congressional spotlight with stories of gross improprieties, fraud, and mismanagement. This study will provide an insight into problems associated with the SBA and the 8(a) program and will try to establish if the program is performing as it was intended.

Scope

This study will focus on two areas. The organization and operation of the SBA and the results of a survey conducted by the Senate Committee on Small Business to 8(a) program graduates.

Limitations

The dynamic nature of the Congress and federal government continues to bring constant change to the SBA and 8(a) program. Primary sources of information were published in late 1987. There are proposed changes to both the organization and the program before Congress during the course of the study. Though the problems cited in this study are not of a "quick-fix" nature, they are constantly subject to ongoing solutions and results which may not be reported in this study.

Methodology

This study is a product of secondary research. Data was analyzed from business periodicals, independent reports, congressional reports, and surveys.

Summary

This independent study consists of four chapters: Chapter 1, Legislative History walks through the historical developments of the 8(a) program and leads to the formulation of the current program. Chapter 2 describes how the 8(a) program is incorporated into the SBA and how the SBA manages the program. This description includes a look at problem areas in the current system of management. Chapter 3, is a detailed review of the results of a survey conducted in 1987 by the Senate Committee on small business to judge the effectiveness of the 8(a) program. Chapter 4 is the concluding chapter of the study. It seeks to answer the question proposed by the study.

CHAPTER 2

THE 8(a) PROGRAM

What is the 8(a) Program?

Section 8(a) is the section of the Small Business Act authorizing sole source contracts for socially and economically disadvantaged persons in which they can obtain federal government contracts. Under Section 8(a), the SBA acts as a prime contractor with other government agencies and enters into contracts of all types (supply, services, research and development, construction) and negotiates subcontracts for their performance with small disadvantaged firms.

What is the Purpose?

The purpose of the 8(a) Program is to:

1. Foster business ownership and development by individuals who are socially and economically disadvantaged.
2. Promote the competitive viability of such firms by providing such a viable contract, financial, technical, and management assistance.
3. Clarify and expand the program for the procurement by the United States of Articles, equipment, supplies, services, materials, and construction work from small business concerns owned by socially and economically disadvantaged individuals.¹

¹Fact Sheet No. 36, Section 8(a) Program, U.S. Small Business Administration, issued by Office of Public Communications, February 1987. U.S. GPO: 187-0-719-023/961.

Who is Eligible?

To be eligible for 8(a) program participation, certain requirements must be met. These include but are not limited to the following requirements:

1. Ownership. The business must be at least 51% owned by an individual(s) who is a citizen of the United States (excluding resident alien(s) and who is determined to be socially and economically disadvantaged).
2. Social Disadvantage. Those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.
 - a. Members. Absent evidence to the contrary, the following individuals are considered socially disadvantaged: Black Americans, Hispanic Americans, Native Americans (American Indians, Alaskan Natives, Eskimos, Aleuts, or Native Hawaiians), Asian Pacific Americans (persons with origins from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, U. S. Trust Territory of the Pacific Islands, Northern Marianas, Laos, Cambodia, Taiwan), Asian Americans (persons with origins from India, Pakistan, and Bangladesh), and members of other groups designated from time to time by SBA.
 - b. Individuals not members of the above named groups must establish their social disadvantage on the basis of clear and convincing evidence. A clear and convincing case of social disadvantage must include the following elements:
 - (1) The individual's social disadvantage must stem from his or her color, national origin, gender, physical handicap, long-term residence in an environment isolated from the mainstream of American society, or other similar cause beyond the individual's control.
 - (2) The individual must demonstrate that he or she has personally suffered social disadvantage, not merely claim membership

in a non-designated group which could be considered socially disadvantaged.

- (3) The individual's social disadvantage must be chronic, long-standing, and substantial, not fleeting or insignificant.
 - (4) The individual's social disadvantage must be rooted in treatment which he or she has experienced in American society, not in other countries.
 - (5) The individual's social disadvantage must have negatively impacted on his or her entry into, and/or advancement in, the business world.
3. Economic Disadvantage. Socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities, as compared to others in the same or similar line of business and competitive market area who are not socially disadvantaged. In determining the degree of economic disadvantage, consideration shall be given to the following: (a) personal financial condition of the disadvantaged individual, (b) business financial condition, (c) access to credit and capital, and (d) a comparison will be made of the applicant's concerns, business and financial profile with profiles of business in the same or similar line of business, and competitive market area.²

Other Requirements

Daily management and operation of the firm must be controlled by an individual(s) who met the socially and economically disadvantaged criteria.

The business must qualify as a small business as defined by §121.3-8 of the Small Business Administration Rules and Regulations. The size requirements varies and is dependent on the primary industry classification of the

²Ibid.

business.

The potential for success must exist. The business must be determined to be one that with contract, financial, technical, and management support will be able to successfully perform subcontracts it is awarded. Provided with even further support, the firm will have a reasonable prospect for success in the competitive private sector.

Brokers and packagers are ineligible for program participation.

All firms have a Fixed Program Participation Term (FPPT). An FPPT is an established time period which a concern may remain in the 8(a) program. Upon completion of the FPPT, the firm is removed/dropped from the program regardless of whether it can achieve or maintain competitiveness in the private sector market. The maximum FPPT is five years. No less than one year prior to expiration of the FPPT, a request to SBA can be made to review and extend a FPPT for a two year period. Thus a FPPT can be a maximum of seven years total. No further extensions can be requested or granted.

Business concerns in 8(a) may be terminated by SBA prior to expiration of the FPPT for good cause.

Other forms of assistance are available to 8(a) firms. Financial assistance is available in the form of loans, advance payments, and business development expenses. Firms in 8(a) can receive a wide range of assistance in

managing their firms, including pamphlets, individual counseling, seminars, and professional guidance. Some firms may be eligible to receive the bonding necessary to perform on government contracts.

CHAPTER 3
LEGISLATIVE HISTORY AND DEVELOPMENT
OF THE 8(a) PROGRAM

To understand the history and development of the 8(a) program, an understanding of the historic development of the Small Business Administration must be reached. This understanding will occur by following the legislative initiatives and developments which created the Small Business Administration and established its authority, policies, and the 8(a) program.

June 11, 1942 Public Law 603 was enacted by the 77th Congress (S.2250). This legislation created the Smaller War Plants Corporation. The Corporation had the expressed authority to contract with the United States to furnish articles, equipment, supplies, or materials to the government. It could arrange for the performance of contracts by subcontracting to small businesses or others as necessary to enable the Corporation to perform these contracts. Public Law 603 further specified that if the Corporation was certified as competent, it had the right to receive the contract coupled with extensive subcontracting authority. Public Law 603 established the government method of contracting with small businesses for the duration of

World War II and the cold war years.

Public Law 96 enacted July 31, 1951 provided the next substantial development. It created an independent Small Defense Plants Administration. It basically provided broad authority "without regard to any other provision of law"¹ to enter into contracts with the United States and to arrange for performance of the contracts by letting subcontracts to small business concerns.

Small Business Act of 1953 (Title II) PL 163 July 30 1953 created the basic foundation of the Small Business Administration that we know today. Public Law 163 dissolved the Reconstruction Finance Corporation and created the Small Business Administration (SBA). It provided the SBA the authority to contract with the United States and arrange for the performance of these contracts by negotiating or otherwise letting subcontracts to small business concerns or others without competition. Even with this authority, the new SBA was somewhat weaker than its predecessors because it lacked authority to "contract without regard to any provision of law."²

PL 85-536 July 18, 1958, established the SBA as a permanent agency with traditional contracting authority. Section 8(a) first appears; it allows SBA to act on behalf

¹John F. Magnotti, Jr., "The Small Business Administration's 8(a) Program; Part One--A Legislative History," Contract Management, April 1985, 13.

²Ibid.

of small business by contracting with the United States and arranging for the performance of these contracts by negotiating or otherwise letting subcontracts to small business concerns or others. At this stage of its development, section 8(a) applies to all business concerns and not specifically minority owned operated businesses.

These powers went essentially unused until the early 60s when racial turbulence began to stir and alter Americans' social consciousness.³ The Economic Opportunity Act of 1964 as amended in 1967 directed attention to labor surplus areas and small business concerns owned by economically disadvantaged individuals.

Added pressure was placed on the SBA by Congress to use the authority and powers granted it under the SBA Act of 1958 to contract with other government agencies and subcontract to small businesses. The third factor which altered SBA's attitude was a Senate Select Committee's report which labeled the 8(a) program of limited use and in need of reform.

The call for reform was headed by President Johnson and initiated by a series of Presidential Executive Orders (EOs). The first, Executive Order 11458 March 1969 established the Advisory Council for Minority Enterprises. It created the mechanisms for developing and coordinating a national program for minority business enterprise.

³Ibid.

Executive Order 11518, March 1970 required the SBA to represent the interests of the small business community within 11 federal agencies, particularly those firms owned and controlled by minorities.

The third Executive Order 11625, October 1971, first used the term minority business enterprise. It defined these organizations nonracially as business enterprises owned or controlled by one or more socially or economically disadvantaged or deprived persons. It further stated that the disadvantaged might arise from cultural, racial, background, or chronic economic circumstances as defined by the SBA.⁴ The 8(a) program operated under the executive orders until it was structured as a congressional initiative in Public Law 95-507 (H.R.: 11318) October 24, 1978.

Once again, publicized clauses of the 8(a) program spurred Congress into action. A congressional study concluded the program lacked any specific mission except contract assistance and failed to foster "business development" which would permit minority firms to operate in private sector. The resulting legislation restructured the 8(a) program. It established the office of Minority Small Business whose objective was to emphasize business development. Also created was the position of Associate Administrator of Minority Small Business and Capital Ownership and Development (MSB/COD). The Associate

⁴Ibid.

Administrator and the Office of Minority Small Business was to be responsible for operation of 8(a) program and had authority under Section 7(j) of the Small Business Act to provide management and technical assistance to minority businesses.

The bill required the SBA to assist firms to develop business plans with specific business targets, objectives, and goals. A foreshadowing of things to occur was Section 211 which created a subcontracting program to encourage major prime contractors to provide subcontracting opportunities for small and small disadvantaged businesses. This concept was later expanded into the minority-setaside program.

Public Law 507 maintained the original concept enunciated in the Smaller War Plants Corporation Act by empowering the SBA to enter into contracts with the United States government and arrange for the performance of such procurement contracts by negotiating or otherwise letting subcontracts to socially and economically disadvantaged small business concerns. The Capital Ownership and Development Program expanded the initial concept by providing the SBA with the resources available to enable disadvantaged firms to become competitive. It recognized that other resources are necessary such as management, technical, and financial assistance are needed to enable firms to overcome their "small and economically disadvantaged" status and compete in the marketplace.

The 8(a) program was further refined with the passage of Public Law 96-481 (October 1980). Prior to its enactment, SBA graduated approximately 200 firms in the ten year period between 1970 and 1980. Public Law 481 required the SBA to negotiate with each firm in the program. Each new firm entering the program must have a fixed period to participate. A Fixed Program Participation Term (FPPT) was established and set at five years. An additional two year extension could be granted. Four years following the enactment of Public Law 96-481 over 600 firms were graduated.

To evaluate the effectiveness of the 8(a) program as a vehicle for business development and to assess progress of 8(a) graduates, a survey was conducted. The Senate Committee on Small Business sent a survey to graduates of the 8(a) program. The results of the survey will be discussed in greater detail in this study.

In March 1983 a Senate Oversight Committee held a hearing. The topic was centered on how to successfully make the transition from minority, disadvantaged status to the commercial marketplace following the completion of a firm's 5 to 7 year enrollment in the 8(a) program. The results were the establishment of several procedures to facilitate a firm's transition. Two years prior to graduation date, the SBA would submit the firm's name and other information to the Minority Business Development Agency (MBDA) of the Department of Commerce. The MBDA would establish a contact

with the firm and begin preparation for graduation by developing contracting opportunities in the commercial marketplace. This procedure was established via an interagency agreement between the SBA and Department of Commerce sign by James Abdnor, SBA Administrator and Malcolm Baldrige, Secretary of Commerce with an effective date of May 19, 1987. (See Appendix A) The implementation of an interagency agreement appeared to mark significant headway in the development of a full cycle business development program.

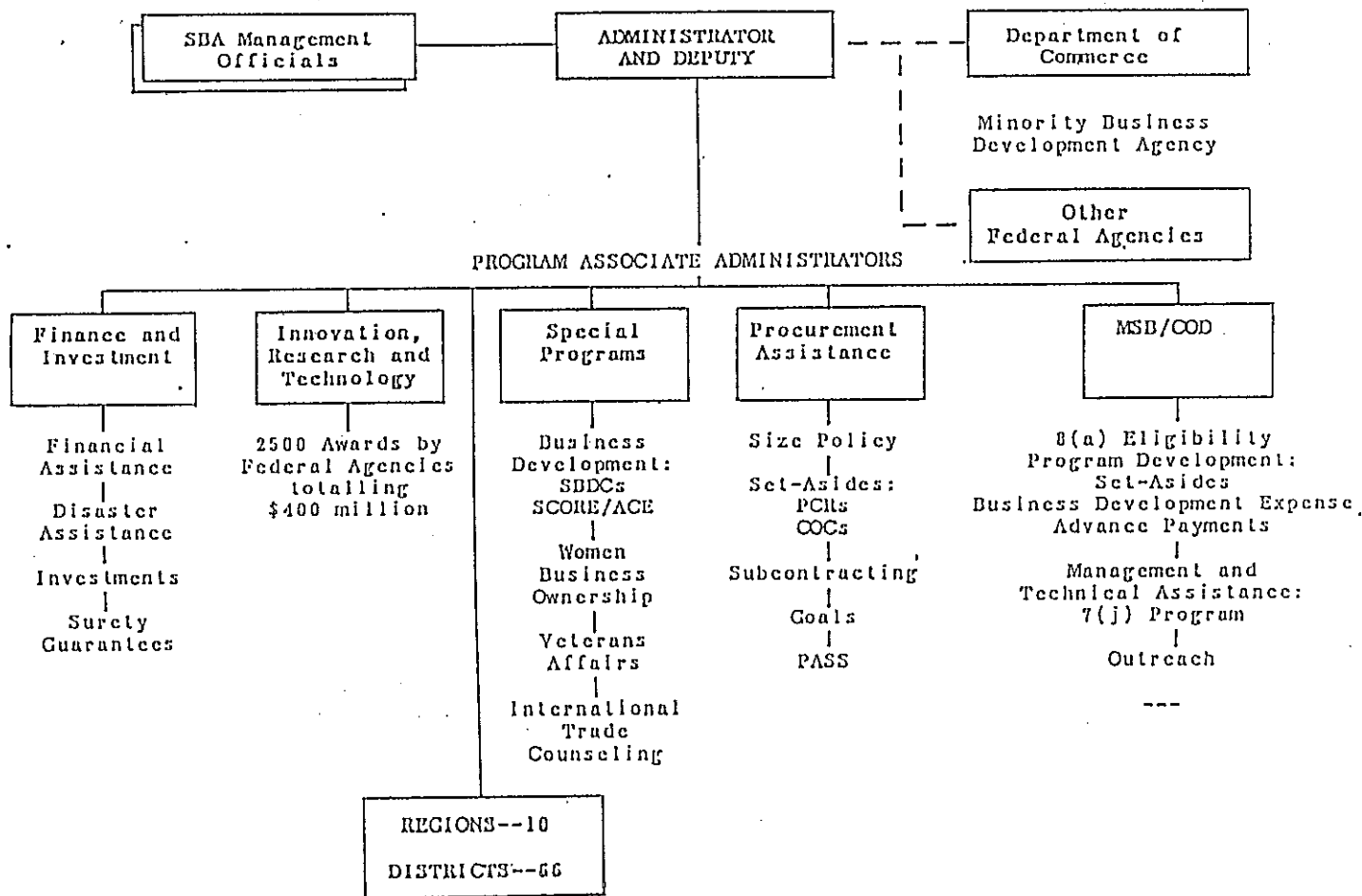
Equipped with an understanding of the historical development of the SBA and the 8(a) program, attention will now be directed toward the management and organization of the SBA itself. The focus will be on the day-to-day functional problems of the SBA in managing the 8(a) program.

CHAPTER 4
ORGANIZATION AND OPERATION
OF THE 8(a) PROGRAM

The 8(a) program is managed and operated under the Minority Small Business/Capital Ownership Development Programs (MSB/COD). The MSB/COD program is one of five program clusters which compose the Small Business Administration (See Figure 1). MSB/COD is one of the smallest programs in terms of personnel in the SBA. It is located in all SBA regions and 56 districts and comprises 346 people of SBA's 4,884 staff. In the Central Office, MSB/COD have 36 personnel out of 1,478 staff members located there permanently. Despite its small size, it "often places a major demand on the time of the regional administrators and district directors--up to half of their time . . ."¹ This fact is explained by the high visability of the 8(a) program. It also involves the 7(j) Capital Ownership and Development Program (COD). 7(j) simply provides management and technical to 8(a) firms to develop business plans with specific targets, objectives, and goals. MSB is solely

¹National Academy of Public Administration, Management Review: Organization and Operation of the Minority Small Business and Capital Ownership Development Program, (Washington, D.C.: National Academy of Public Administration, 1987), I-3.

FIGURE 1.
THE ROLE OF MSB/COD WITHIN SBA



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) I-4.

responsible for 8(a) and 7(j) both of which require coordination with several other SBA programs involving even more other small businesses. These include: The Office of Finance and Investment provides for loans, surety guarantees, and SBA support of the Small Business Investment Corporation (SBIC). One group with the Office of Finance and Investment is licensed by SBA solely to help 8(a) firms. SBIC can provide management assistance to the companies they finance.

The Special Programs group consists of the Small Business Development Centers (SBDCs) which provide a network of 500 private sector lead centers and subcenters. They offer managerial and technical help, research, and other types of specialized assistance to small businesses. With a budget in 1986 of \$35 million, these special programs are important to the MSB portfolio. There are also small business institutes on university and college campuses. The Business Development Program offers free counseling, courses, and workshops with the support of the Service Corps of Retired Executives (SCORE) and the Active Corps of Executives (ACE).

The SBA Procurement Assistance Program provides an active means of identifying and setting aside procurement for small businesses. The Office of Procurement Assistance also coordinates the process of setting annual goals by federal agencies and goals include small disadvantaged businesses, both 8(a) and non-8(a). The Procurement Assistance Program manages the Procurement Automated Source Selection System (PASS). PASS consists of a directory of

small supplies of goods and services. It currently contains 150,000 companies of which 26,000 are minority-owned. Inclusion in the PASS system greatly increases the opportunity of success for a small business.

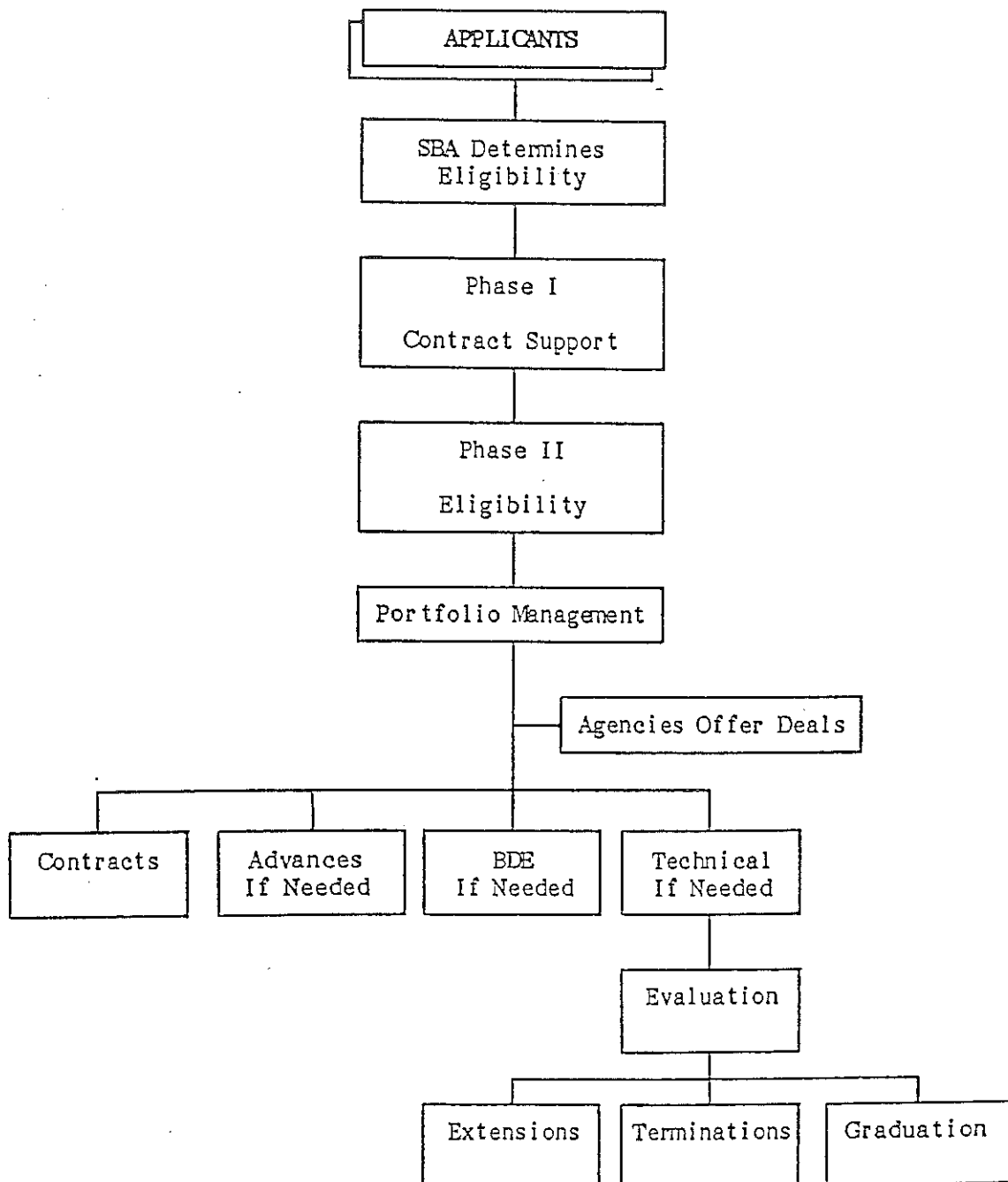
The SBA may soon acquire another program. The Department of Commerce operates the Minority Business Development Agency (MBDA). Because of similar goods and clients, the MBDA and SBA cooperate together via a Memorandum of Agreement (See Appendix A). The MBDA consists of a 240 person staff, a budget of 24 million, and 100 centers to assist large and small minority owned businesses. The Reagan 1989 fiscal budget requests appropriation authority to transfer the MBDA to SBA thus consolidating the program into the SBA.

The full scope and amount of interagency cooperation is better appreciated when it is recognized that all federal agencies by law are required to have an Office of Small and Disadvantaged Business Utilization. The director is required to report to the head of the agency.

Operation: How the 8(a) Program
Works (See Figure 2)

Step 1. A firm wishing to enroll in the MSB program and receive SBAs full assistance must, of course, apply. The application is a certification of the firm's minority small business status. The criteria of minority small business was discussed earlier. The application process is time consuming

FIGURE 2
 SMALL BUSINESS ADMINISTRATION
 THE MSB PROCESS
 (Presumably Over a 7-Year Period)



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) I-8.

and drawn out. "The time span may require a period as long as one year, according to a recent study of 53 cases published by the associate administrator of the MSB/COD."² There are approximately 3,000 certified firms with 2,000 firms undergoing certification.³

Step 2. The SBA determines the applicants' eligibility. The specifics of the eligibility criteria was discussed earlier. The determination is made at the district office, then again at the regional office and finally by the central office. The law requires that the associate administrator provide the final approval or disapproval of an application.

Phase I of the application is a determination of whether there is a reasonable prospect of contract support. If potential contracts are expected to come from local sources, the decision of "prospective contract support" is also made locally at the district level. Otherwise, the determination is made at the central office. With a positive chance of contract support, the applicant proceeds to Phase II. Phase II further insures determination of minority, disadvantaged small business qualification. Phase II requires an applicant to submit a long term business plan. The business plan must cover the FPPT and forecast sales by each year, both 8(a) and non-8(a) participation. SBA then

²Ibid., I-7.

³Ibid.

provides assistance in developing a marketing plan aimed at the federal agencies. The SBA under the powers granted it through the 8(a) program, will serve as the prime contractor with federal agencies and subcontract out to minority firms under the program. Of the 3,000 certified firms in the 8(a) program, 4,200 contracts were awarded at \$3.1 billion in fiscal year 1986.⁴ Though \$3.1 billion is a large figure, it is misleading. Of the 3,000 certified firms, only 70% or 2,100 received one or more awards during their FPPT.⁵ Only half of those 3,000 firms received awards during a year and some firms wait several years for a first award.⁶ The reality of these figures indicate that inclusion into the 8(a) may not result in immediate results. Outside of contract awards, there are several programs available to aid the 8(a) firm.

Advance payments are available to 8(a) firms which are in need of immediate funds to purchase materials and pay expenses. No interest is charged for the loaned funds. Problems have occurred with bankrupt firms unable to repay. It is estimated that delinquent advance payments which may require write off is \$24 million.⁷ Such a figure has resulted in SBA avoiding the use of advance payments as

⁴Ibid., I-10.

⁵Ibid.

⁶Ibid.

⁷Ibid., I-11.

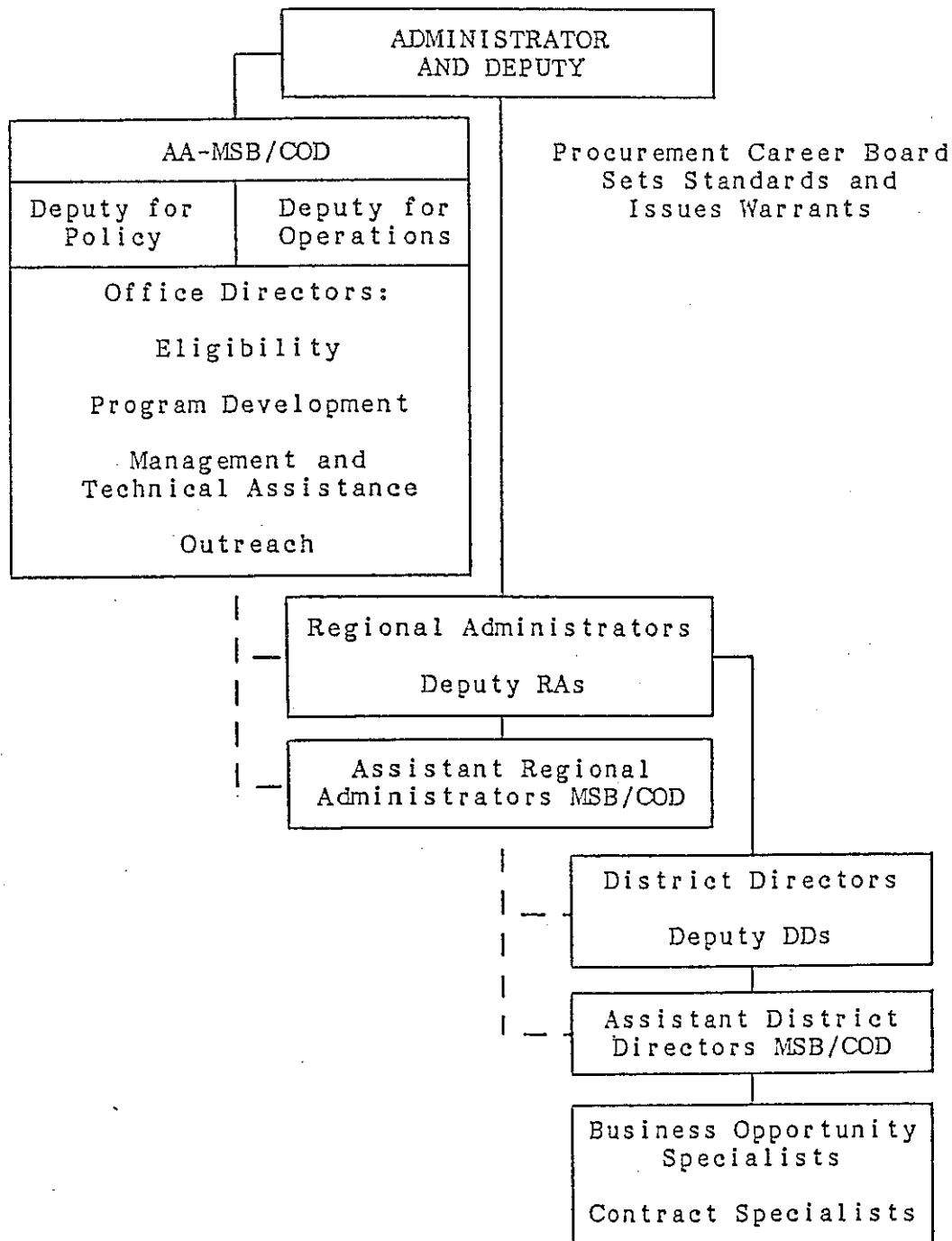
much as possible.

Business Development expense is a little used yet powerful tool to further the development of 8(a) firms. It is a special fund consisting of \$17 million. Its purpose is to cover the cost of buying capital equipment needed to perform contracts. This payment is equivalent to a grant because it does not require repayment if the contract is completed. The lack of use has prompted the Office of Management and Budget (OMB) to request the fund be eliminated in fiscal year 1988.

Reviewing the operation of the SBA with its many programs and subprograms shows the detailed coordination which must occur within the SBA. Like most organizations, the flow of authority flows from the administrator to the regional administrators, down to the district directors. To better understand this flow, see Figure 3. Important to the 8(a) firm is the director of the MSB/COD program who is the associate administrator located at central office (AA-MSB/COD). The AA-MSB/COD runs a staff of 36. Their primary duties involve policy issues surrounding the Standard Operating Procedures (SOP), and some other administrative activities. These include:

1. Approved decisions on applications
2. Approval of business development expenses involving amount over \$500,000 or amounts that exceed 50% of contract amount
3. Acts on national buys
4. Appeals to program terminations and completions

FIGURE 3
 ORGANIZATION OF THE MSB/COD PROGRAM NATIONWIDE



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) I-13.

5. Waivers to the SOP

The central office is also responsible for the Procurement Career Board. Its primary purpose is to issue warrants to contracting offices authorizing to sign contracts up for specific amounts.

The Regional Administrator (RA) reviews actions going to the central office and provides final approval of:

1. Extensions
2. FPPT
3. Business development expenses not requiring central office approval
4. Advance payments
5. Contracts within the limits of authority granted regional

At the lowest level, the district director approves all actions requiring regional or central office action. The director also approves contracts within his designated authority. The regional and district manpower breaks down as follows; 10 MSB regional offices with 61 positions. Atlanta is the largest regional office with 14 followed by Boston with 8. There are 56 district offices. The six largest offices are:

Washington, D.C. District	35
New York District	12
Los Angeles District	10
Newark, Chicago, San Francisco	9 each

The remaining 50 possess an average of 3.5 MSB positions.⁸

Key Issues

The National Academy of Public Administration (NAPA) prepared a study of the MSB/COD Program for the SBA. The report was published in November 1987. It identified several areas within the MSB/COD program which warrant more attention and demand immediate action.

History of Slow Progress

A concern centered around SBA's history of slow progress in reacting to and implementing change. The NAPA study provided a synopsis of 15 studies conducted since 1969 concerning reforms and suggested improvements. A 20 year history of studies, recommendations, reforms and solutions to many problems existing today. If these reforms had been fully implemented, there is a high probability that current problems would not exist. This past trend of studies suggests the NAPA study will be just another study added to the already impressive list (See Appendix B).

Inadequate Share of Resources

NAPA study suggests that SBA must place more resources at the direction of the MSB/COD program. The MSB/COD program is just one small part of several programs the SBA provides using 1,514 of 4,884 or 31% of SBA's personnel.⁹ It

⁸Ibid., I-15.

⁹Ibid., I-3.

however is by far the most visible of all SBA programs (See Figure 4). Visibility when coupled with the program's complexity strains SBA's resources as it attempts to meet the public's demand for timeliness, competency, and integrity. These demands are evident when reviewing the media's coverage of recent SBA corruption such as the Wedtech Corporation.

Need for Enhanced Workforce Effectiveness

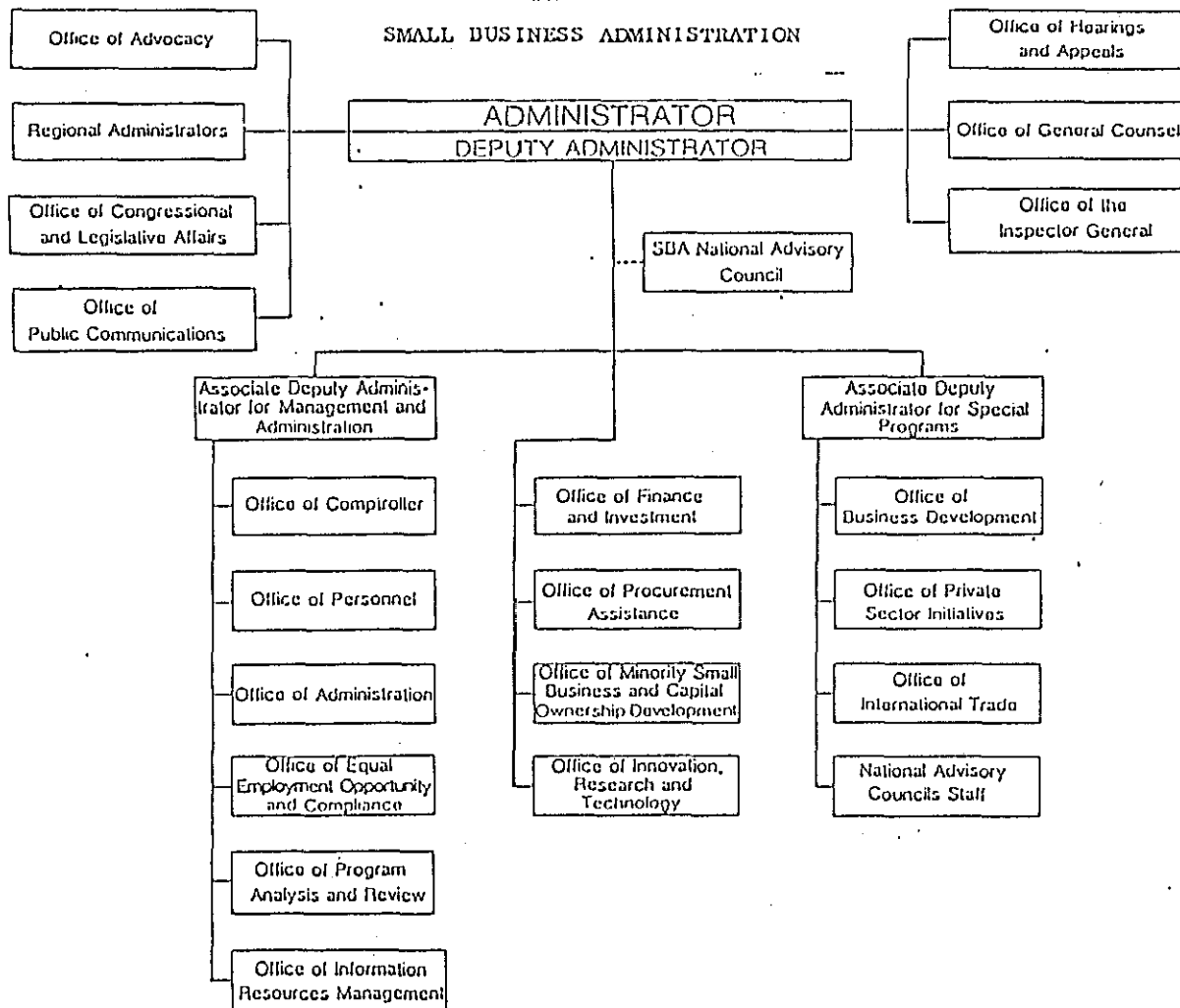
"Inadequate emphasis on workforce effectiveness is the biggest single deterrent to MSB/COD's productivity."¹⁰ NAPA study conducted the high degree of complexity, wide range of duties, and variety of skills needed, requires the MSB/COD staff skills be reassessed and upgraded. The day-to-day administration of the 8(a) program to small businesses is in the hands of a Business Opportunity Specialist (BOS) and Contract Specialist.

The BOS implements and monitors the 8(a) program, assists in the strengthening and growth of manufacturing, construction, and service enterprises owned and operated by disadvantaged individuals. Assistance is accomplished through direct management, marketing, financial, procurement, and technical assistance and counseling.¹¹ The contract specialist's duties are to analyze prices and negotiate contracts for a variety of commodities and services.

¹⁰Ibid., v.

¹¹Ibid., Appendix I, 11.

FIGURE 4



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) Appendix F.

Instruct the 8(a) firm about preparing its proposal. Analyze all proposals to determine if they conform to the needs of the procuring agency. Review and recommend advance payments and business development expenses and administer such arrangements when approved. On the average, contract specialists and BOSs do not possess a college education nor an indepth level of business experience. However, their tasks require them to be experts in the business field and skilled counselors and teachers. The Washington, D.C. District Office has 483 firms enrolled in the 8(a) program with 22 BOSs to work them. Of these 22, 4 supervisors possessed considerable education beyond high school and a few had direct business experience.¹² Only one of the 18 front-line managers has a college degree. Most formal training was in government procurement courses. Several of the front-line managers had advanced to be a BOS through the clerical or secretarial ranks.¹³ The need for enhanced workforce effectiveness not only boils down to enough people to do the job, but means better trained, more knowledgeable people.

Accountability for Performance--Adapting

A Functional Management Approach

The MSB/COD Program lacks full participation from the professional staff in developing better management and

¹²Ibid., V-2.

¹³Ibid.

improving workforce effectiveness. The lack of full participation is attributed to the SBA's past emphasis on a decentralization policy based on 10 regions and 66 field offices. This emphasis on decentralization is in the process of change. In his "State of the Agency" speech in June 1987, Administrator Abdnor stated:

I want SBA to be a team. I want us all working together. I want all of us from the Central Office to the field offices to be aware of the workings of SBA. I want all of us from the Central Office to the field offices to constantly communicate with one another. Then, and only then, will we truly function at our full capabilities. We are going to combine teamwork and communications with consistency and, of course, the fairness which follows.¹⁴

These statements signalled the first attempts at decentralization based on strong communications throughout SBA. To achieve this level of communication, an adequate information system is required. NAPA has identified a major weakness in the existing database. It is not "sufficiently current and complete for field use . . . MSB does not have a manager devoted to systems design and use."¹⁵ The lack of an adequate database was evidenced further when there was no information available on recent graduates of the 8(a) program. When the Senate Committee on Small Business conducted a survey of 8(a) firms, it experienced major problems. The addresses of 8(a) graduate firms possessed by SBA were often incorrect and outdated. The list of graduates

¹⁴Ibid., VI-1.

¹⁵Ibid., Summary, 3.

provided by Central Office were many times different from those addresses provided by regional offices.

As a result, committee staff expended an unexpectedly high number of manhours seeking current information and updating lists in order to reduce the deluge of "Return to Sender" or "No Forwarding Address" letters that were returned after the initial mailing.¹⁶

It can be reasoned that an adequate database, if already in SBA's possession, would have made a survey unnecessary. The information concerning 8(a) graduate firms would have been readily available.

An important aspect needed to foster sound functional management is flexibility. Day-to-day operations are guided by Standard Operating Procedure (SOP), a 400 page manual designed to:

- a. Combine all policies, procedures, instructions, and guidelines for implementing and executing on a decentralized basis, the Office of MSB/COD program responsibilities under the Small Business Act, as amended.
- b. Delineate to regional administrators within the scope of their delegated authority, responsibilities for conducting MSB and COD program operations.
- c. Expand and clarify the business development function of the 8(a) program.
- d. Clarify the role and responsibility of other SBA program offices in assisting 8(a) concerns.¹⁷

SBA must develop a system to test ideas for change. It

¹⁶Congress, Senate, Committee on Small Business, Survey of the Graduates of the Small Business Administration Section 8(a) Minority Business Development Program, 100th Cong., 1st sess., 1987, Committee Print, 6.

¹⁷NAPA, Management Review, Appendix I.

cannot afford to change the SOP everytime it wishes to test or implement a change. A system for testing changes must provide for a rapid means of implementing these changes. SBA has a long history of being studied for improvements and changes (See Appendix B). SBA does possess a history of poorly implementing suggested improvements and changes.

The last area of concern is a combination of loosely fitting factors. Professionalizing MSB/COD image and operations and dealing with the politicization of SBA decisions will be discussed separately. Citing Wedtech as an example, the public is aware of most shortcomings experienced by SBA which were caused by fraud, abuse, or waste. The key to professionalizing its images lies in SBA professionalizing its staff and thus its own activities.

"When management systems are sound, staff is well trained, and 8(a) firm selection criteria evenly applied, SBA is in a stronger position to deter interferences from outsiders"¹⁸ SBA must focus media attention and the public eye on its successes. Firms which have completed the 8(a) program and successfully graduated to the competitive marketplace must be highlighted. Placing emphasis on the many non-publicized successes will counter at times the onslaught of negative opinion and press which routinely bombards the 8(a) program.

¹⁸Ibid., Summary, 5.

Politicization

The NAPA study addressed the subject of politicization quite lightly by simply stating, "The politicization of individual SBA decisions is far more difficult to address, but it is very real."¹⁹ This is an understatement of the magnitude of the problem. In a recent questionnaire, 74% of the District Directors answered "yes" to the question, "Is the MSB/COD program overly influenced by political considerations?"²⁰ This politicization can be attributed to the political nature of SBA's leadership. Thirty-eight percent of SBA's Senior Executive Service (SES) positions are political appointees making it third among the top nine agencies with more than 20% political appointees.²¹ The severity of politicization is further demonstrated by a study conducted by the General Accounting Office (GAO) on behalf of Senator John Glenn (D-OH), Chairman of the Senate Governmental Affairs Committee. The report completed July 1987 titled "Federal Employees, Trends in Career and Non-Career Employee Appointments in the Executive Branch" stated, "The SBA was the only agency out of 27 samples that had more than 25% of its allocates' SES positions held by political appointees."²²

¹⁹Ibid.

²⁰Ibid.

²¹John F. Magnotti, Jr., "Politics and the SBA's 8(a) Program," Contract Management, June 1988, 9.

²²Ibid.

"Politicization of the SBA is evident in daily operations. Richard Rame, President Dialogue Systems, Inc., testifying at a May 1987 hearing of the Committee on Small Business remarked:

The program definitely needs to be depoliticized . . . it is a political program having nothing to do with the competence or the ability of the firms to deliver services . . . the certification process seems to be based more on political considerations than whether . . . there is a need for the kinds of services that the offers When we first went into the program, it was suggested to us . . . that the way to get into the 8(a) program was to have some political connections . . . it was not simply a matter of filling out the forms, presenting your qualifications and being accepted into the program based on the needs of the program.²³

Research indicates that the majority of 8(a) awards go to just a few firms. In 1981 with 2,000 firms enrolled in the 8(a) program, 50 received 31% of the 8(a) contracts.²⁴ Statistics prepared for Congress during hearings held on June 5, 1987 stated of 2,964 firms eligible in 1987, 61 firms received \$30 million in noncompetitive 8(a) contracts since 1982.²⁵

The Wedtech Corporation scandal is a gross example of political influence, its effect, and the extent to which the SBA is subject to political manipulation. It is alleged that a "political network" consisting of Attorney General Edwin Meese, retired Assistant to the

²³Ibid.

²⁴Ibid.

²⁵Ibid.

President for Political Affairs Lyn Nofziger, and SBA Administrator James Sanders ushered Wedtech through the SBA maze to receive contracts worth hundreds of millions of dollars. Preliminary investigations have indicated that methods used were a display of grossly inappropriate and unethical use of political muscle.

Politicization within SBA's organizational structure and in its day-to-day operations is a problem. It prevents the full actualization of an effective 8(a) program.

CHAPTER 5

SURVEY OF GRADUATES FROM THE 8(A) PROGRAM:

REPORT OF THE COMMITTEE ON SMALL

BUSINESS, UNITED STATES SENATE

The Senate Committee on Small Business is empowered with the legislative and oversight responsibilities for the Small Business Administration and all its programs. The 8(a) program is one such program which has warranted much of the committee's time and energy. In August 1986 the committee conducted a national survey in order to determine the status of 8(a) firms that had graduated from 8(a) status. Public Law 96-481 enacted October 1980 required that a definite graduation date be established for participating firms. Prior to Public Law 96-481, few firms left the program. Over a 10 year period from 1970-1980, only 200 firms graduated from 8(a) status. Public Law 96-481 required the SBA to negotiate with each firm currently enrolled and all new firms to set a fixed period of time to participate. The SBA developed a system of Fixed Program Participation Terms (FPPT). FPPT controlled a firm's participation in the 8(a) program to 5 years with a possible 2 year extension. The FPPT system resulted in 600 firms graduating in 4 years.¹

¹Committee on Small Business, Survey, 6.

Implementation of the FPPT system and the mass graduation of 8(a) firms resulted in fears voiced to the committee that as many as 400 firms would go out of business.² The survey would investigate the effects of the FPPT system.

To address the concerns of the FPPT system on 8(a) firms, the committee held an oversight hearing in March 1983. At this hearing, the Administrator of the SBA and Secretary of the Department of Commerce submitted a proposal outlining a plan for transitioning 8(a) firms to the competitive marketplace (See Appendix A). This program was to be initiated two years prior to a firm's graduation date. The SBA would then submit the firm's name to the Department of Commerce Minority Business Development Agency (MBDA). The MBDA, through its network of development centers, would help begin the firm's preparation for graduation by developing contracting opportunities in the competitive marketplace.

Problems surfaced concerning the SBA-MBDA transition program. In a committee visit to the Seattle, Washington Business Development Center (BDC), several discrepancies were noted. The Seattle BDC was completely unaware of the existing transition program or the interagency agreement. Accordingly, no 8(a) graduates were contacted nor had the SBA and MBDA district offices met to discuss or implement the plan. The survey attempted to evaluate the

²Ibid., 5.

effectiveness of the 8(a) program in preparing minority firms for the competitive marketplace.

The survey solicited information about the firm, percentage of minority ownership, and primary line of business. It also solicits the participants' opinions and views on the strengths and weaknesses of 8(a) as a comprehensive business development program.

This survey represents the Senate Committee's first attempt to (a) measure the impact of graduation on 8(a) firms, pursuant to Public Law 96-481; and (b) gather information from former participants as to the effectiveness of this 8(a) program in preparing minority businesses to survive in the private sector.³

The survey was sent to 461 8(a) firms which graduated between October 1982 and February 1986; 177 responses were received providing a response rate of 38%.⁴

Methodology

The survey was developed through the combined efforts of the Committee and the SBA personnel responsible for administering the 8(a) program. Other groups involved included various minority business associations which were asked to provide input and recommendations. The Congressional Research Service (FCRS) of the Library of Congress and the Senate Computer Center provided assistance in the formulation of questions, statistical analysis, and the tabulation of results.

³Ibid., 6.

⁴Ibid.

A major difficulty occurred in mailing the surveys. A computer listing of 8(a) firms which had graduated between October 1982 and February 1986 was obtained from the SBA Central Office. This listing was compared with a similar listing from SBA's 10 regional offices. A large number of addresses were outdated, inaccurate, or there were conflicts between listings.

To correct these inaccuracies, the committee staff spent a great amount of time seeking current addresses in order to reduce the amount of returned mail. The initial mailing resulted in an unsatisfactorily high return rate. After three mailings, the number of returned letters was reduced to 115. A final attempt was made by telephone to reach the 115 firms. The outcome resulted in 89 firms being declared "unreachable" or unlocatable. Fourteen firms contacted were still in business, 12 businesses were no longer operating. "No Response" was received from 169 firms. These firms were assumed to have received the survey but chose not to answer. An attempt was made to reach the 169 firms by telephone. Thirty-one firms could not be reached by telephone, 119 were found to be still operating, and 19 were permanently closed. Simply establishing contact with graduated firms proved to be an exasperating task in itself.

Survey Limitations

The information received was taken at face value. No further research or investigation was conducted to check the

validity or accuracy of information. Survey questions were designed to gather information in several areas. These included general information about the firm.

The findings . . . represent a summary and analysis of the perceptions and opinions of the respondents as to the effectiveness of the 8(a) program in providing business development assistance and preparing these firms for the competitive marketplace.⁵

A firm profile, experiences while in the program including reactions to various program components and experiences since graduating in terms of contracts received from federal and state. Questions were also asked regarding the support received from SBA and MBDA since graduation, operating conditions of the firm, including potential growth, severe problems, and general well-being of the firm since graduation.

Major Findings

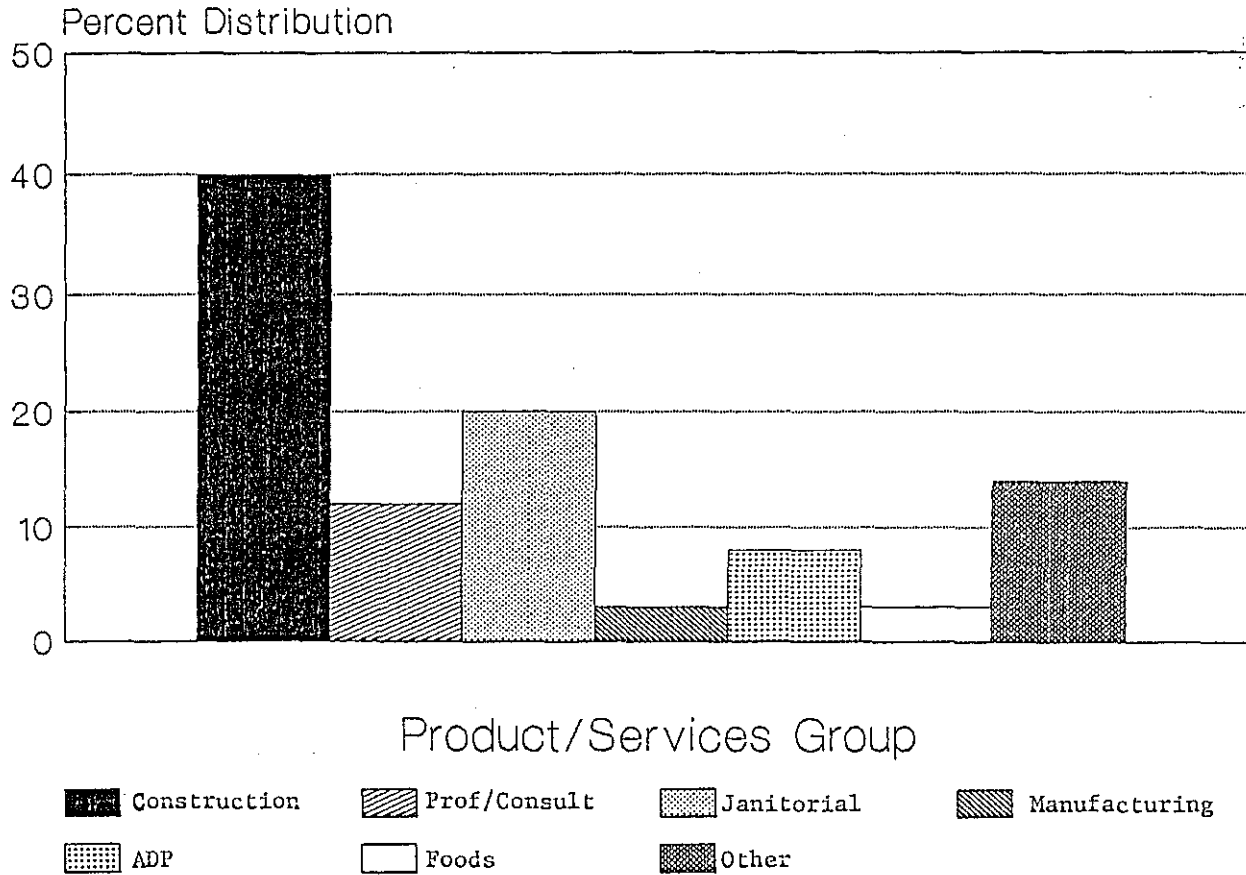
Industry Profile

Firms remained in the same line of business after graduating from 8(a). Forty percent were in construction or related fields, 20% were janitorial or maintenance services, 3% manufacturing, and 8% automated data processing or computer services (See Figures 5a and 5b). There is ongoing concern about the lack of firms in manufacturing and high-tech industries. The survey substantiates this viewpoint, the majority of firms remain in the construction and maintenance fields.

⁵Ibid., 7.

FIGURE 5A

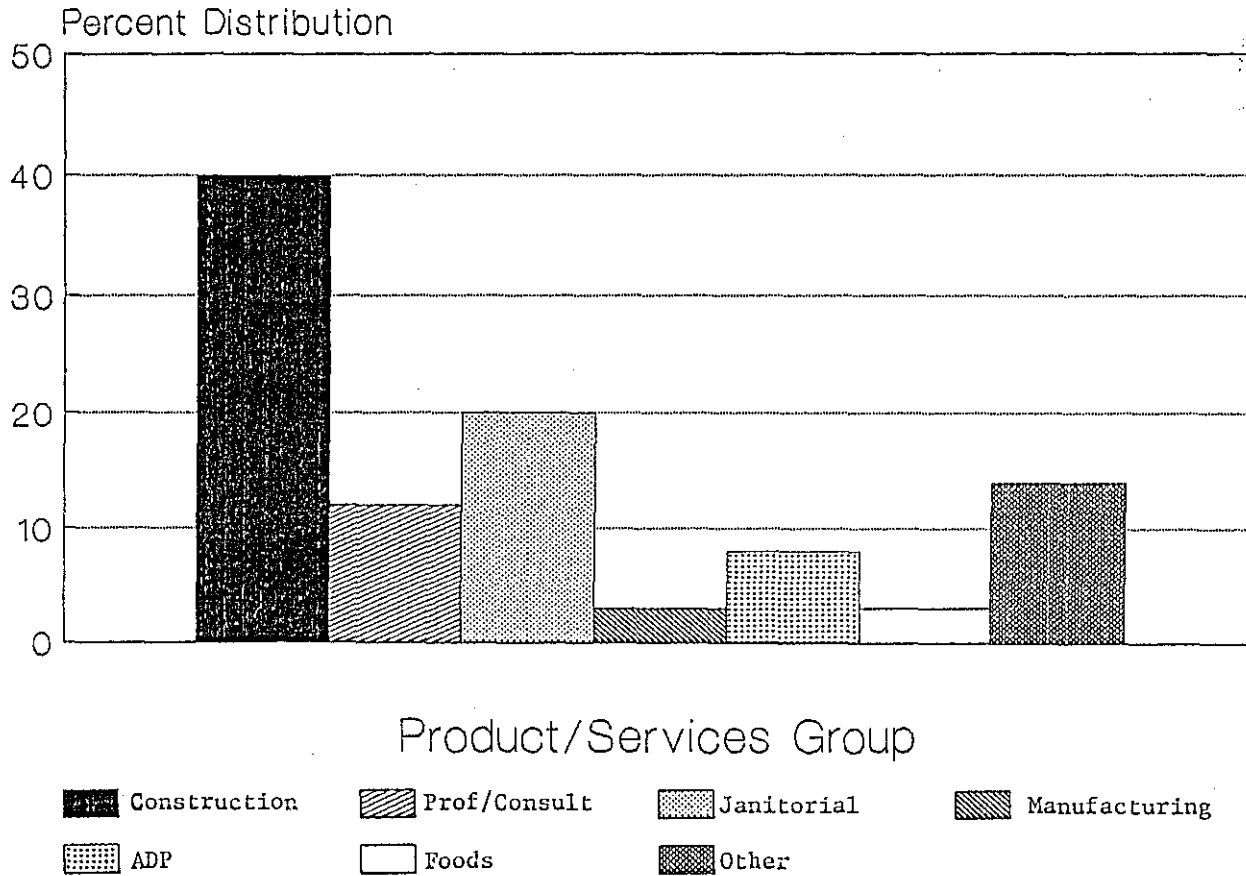
Firm's Primary Products and Services at the Time of Certification



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 10.

FIGURE 5A

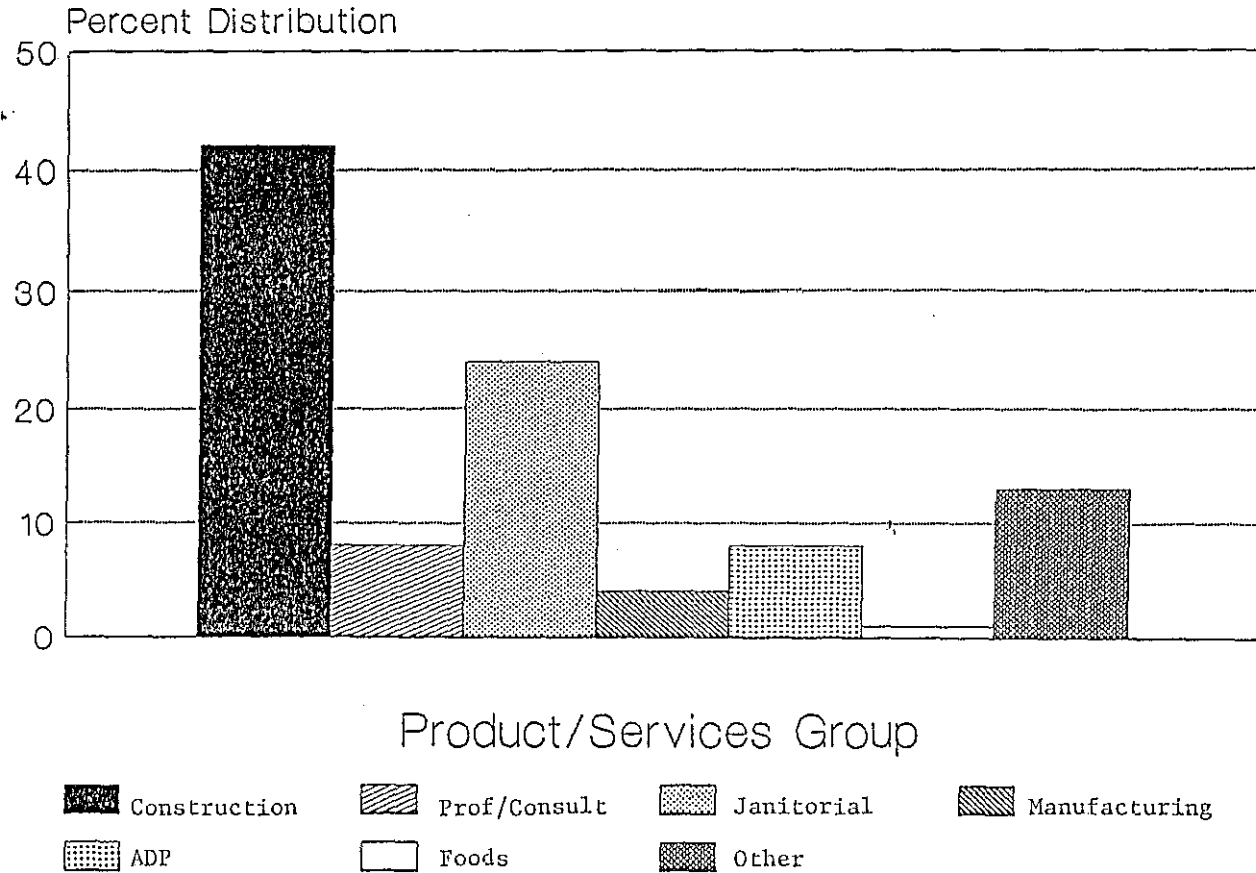
Firm's Primary Products and Services at the Time of Certification



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 10.

FIGURE 5B

Firm's Current Primary Products and Services



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 10.

Healthiness

The healthiness of a firm was judged by the owner's perception, quantitative information on profitability, number of employees, annual sales, assets, net worth, and working capital. When asked to describe their condition, 22% described themselves as "doing very well," 42% said "doing well enough to get by" (See Figure 6). When asked to predict their future status, 44% responded "better," 19% responded "the same," 13% said "worse off," and 24% said they were "not sure" (See Figure 7). The owner's perception of firms' well-being coincided with the results gathered and compared to the quantitative factors.

Out of Business Rates

Every effort was made to determine the status of all 461 firms in the original sample. This included several attempts at mailing, telephone contacts, and finally a consultation with Dun and Bradstreet to check their files on specific firms. Eighteen out of 177 owners stated they were out of business. Ninety-seven of the 461 firms were definitely closed. Dun and Bradstreet presented evidence that another 42 firms were out of business. Viewing the evidence, 21% of the firms were out of business with a possible 30% of the firms out of business.

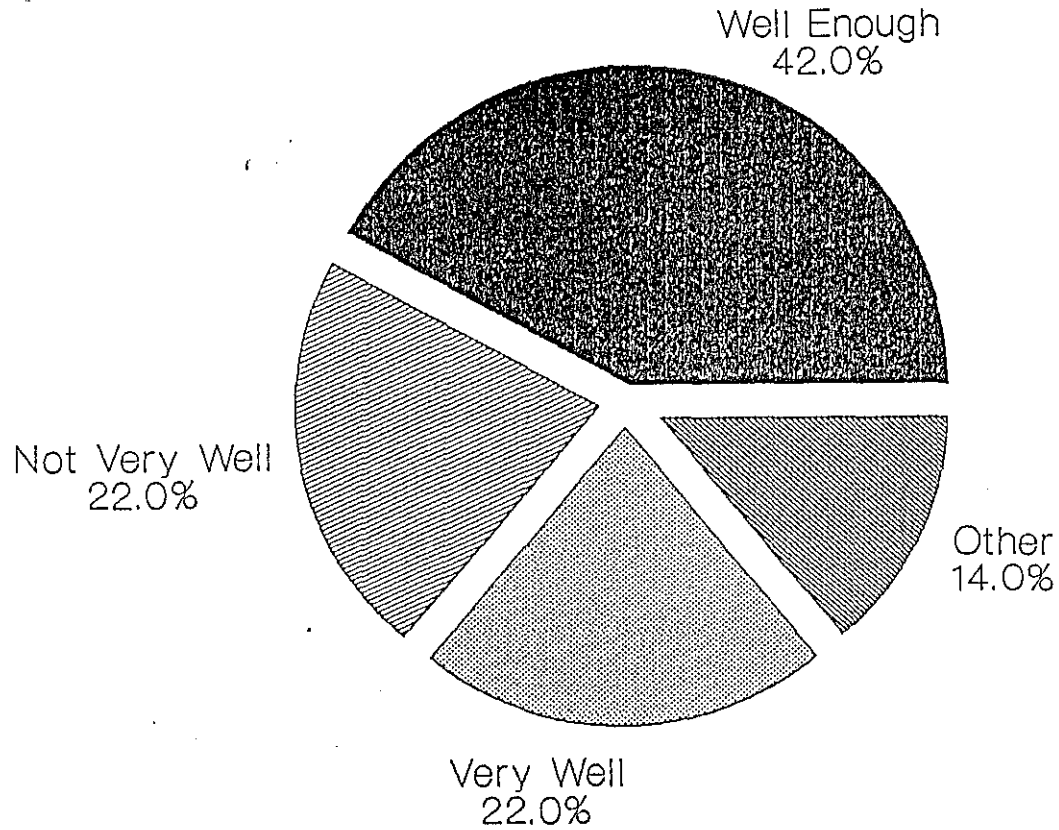
Program 8(a) Viewed as a Contracts

Program Not a Business Development Vehicle

A purpose of the survey was to measure the

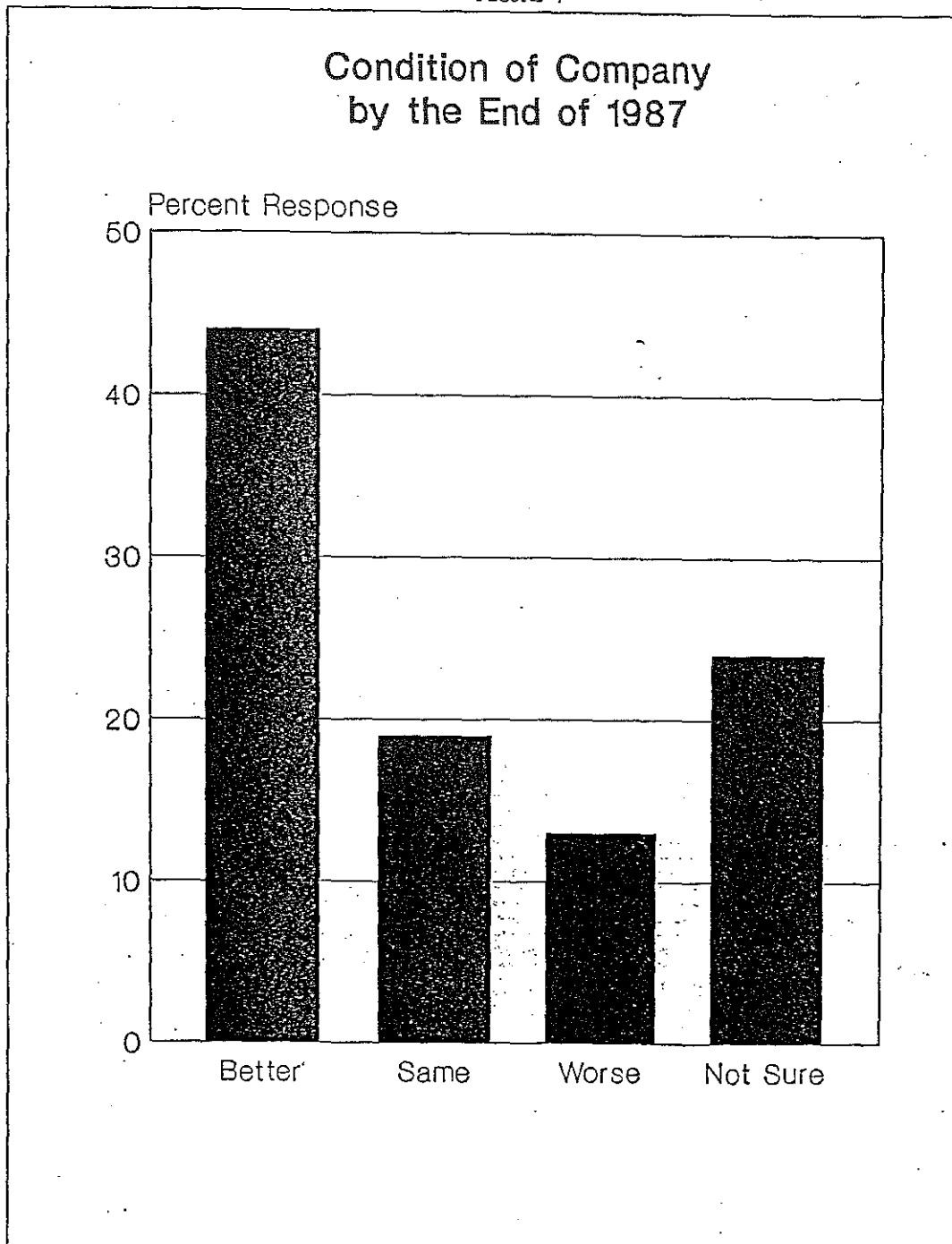
FIGURE 6

Current Condition of Your Company



Source: National Academy of Public Administration, Management Review of the Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 13.

FIGURE 7



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 14.

effectiveness of the 8(a) program as a business development program as opposed to a purely contracting program. The prevailing opinion of the survey respondents described the 8(a) program as most helpful in providing government contracts and least helpful in providing development support. "The responses showed a clear trend that the 8(a) program fell short in its delivery of these services (management, technical, and financial assistance) to participating firms despite its availability"6 Seventy-five percent rated government contracts "very helpful," 24% rated management assistance as "very helpful," and just 16% rated training "very helpful" (See Figures 8 and 9).

Respondents were asked via an open-ended question to describe the strongest and weakest aspects of the 8(a) program. The area receiving "strongest" support was government contracts. Areas receiving the "weakest" votes were management, technical, marketing, and financial assistance (See Figures 10a and 10b). " . . . it appears that the 8(a) program has basically remained a contracts program with management and technical support continuing to be its achilles heel."7

No Transitional Structure

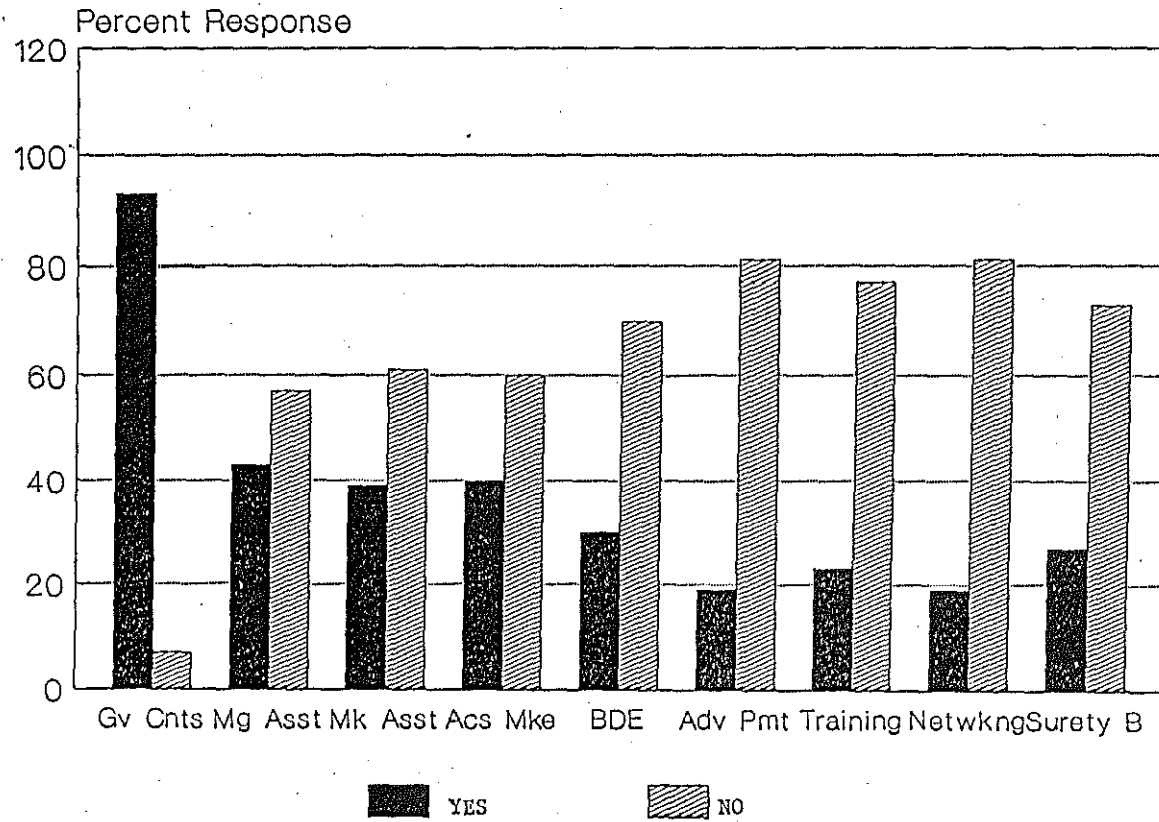
Public Law 96-481 established the FPPT. The implementation of the FPPT system has resulted in an

⁶Ibid., 16.

⁷Ibid., 21.

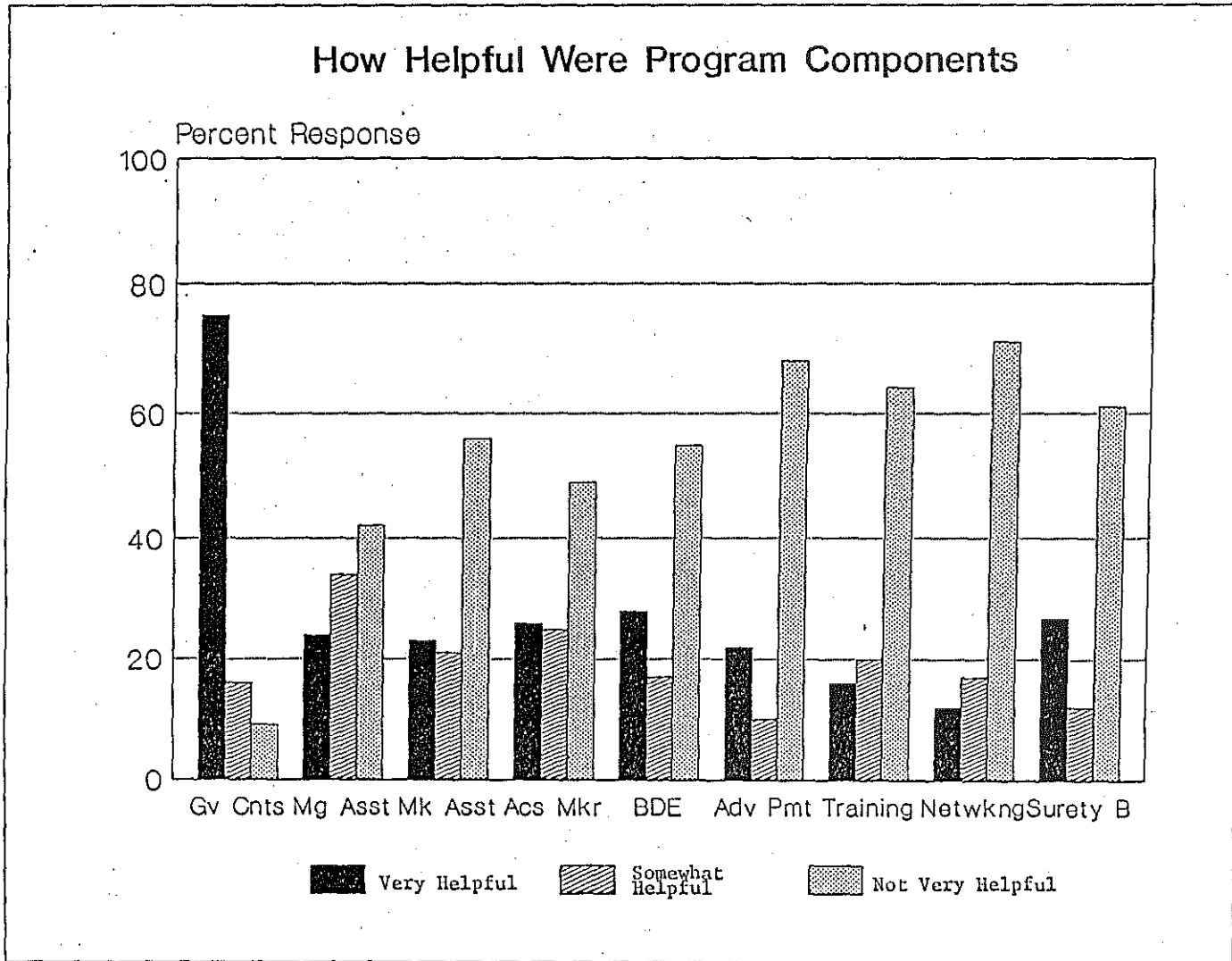
FIGURE 8

Aspects of 8(A) Program That Are Helpful



Source: National Academy of Public Administration, *Management Review of the Minority Small Business and Capital Ownership Development Program* (Washington, D.C.: Small Business Administration, 1987) 18.

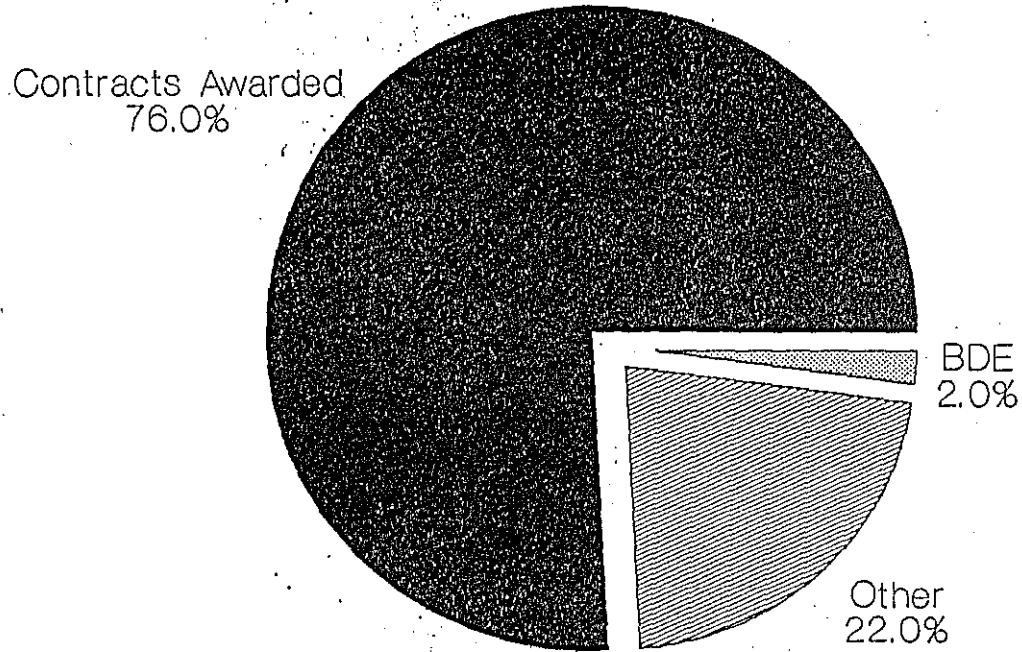
FIGURE 9



Source: National Academy of Public Administration, *Management Review of the Minority Small Business and Capital Ownership Development Program* (Washington, D.C.: Small Business Administration, 1987) 19.

FIGURE 10A

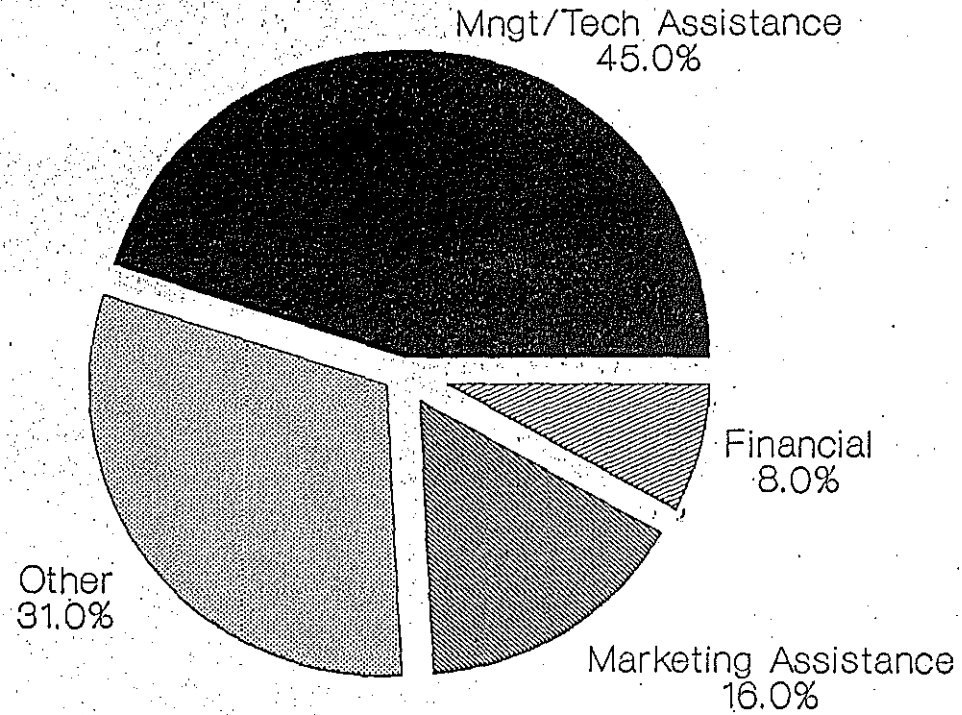
Strongest Aspects of 8(A) Program



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 20.

FIGURE 10B

Weakest Aspects of 8(A) Program



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 20.

overwhelmingly bad sentiment developed by 8(a) graduates. They expressed in the survey that they felt as if they were simply "dropped" from the program at the expiration of their FPPT. There is a transitional program in place. A cooperative agreement between SBA and the Department of Commerce Minority Business Development Agency (MBDA) established a transitional program to aid an 8(a) graduate firm into the competitive market (See Appendix A). This is clearly not happening. Seventy-two percent of the surveyed firms said they had not received any assistance. Only six firms described MBDA assistance as very helpful (See Figures 11 and 12).

Impact of Graduation

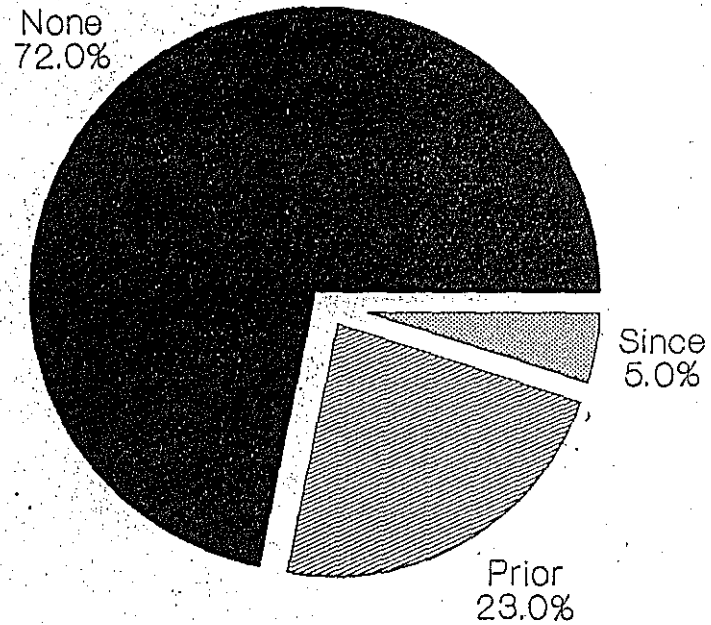
There is no clear consensus on the impact of graduation on the firms. Fifty-eight percent described graduation as having a "devastating effect." Fifty-one percent said their company had failed to grow since graduation, 18% felt they would not go out of business, 61% said they were becoming competitive in the private sector, and 57% continued to receive government and commercial contracts (See Figures 13a, 13b, and 14a, 14b).

Length of Participation

Respondents were asked what the optimum time was for a firm to participate in the 8(a) program. The average response was 10 years, twice as long as the current FPPT system. However, 51% of the firms provided no numerical

FIGURE 11

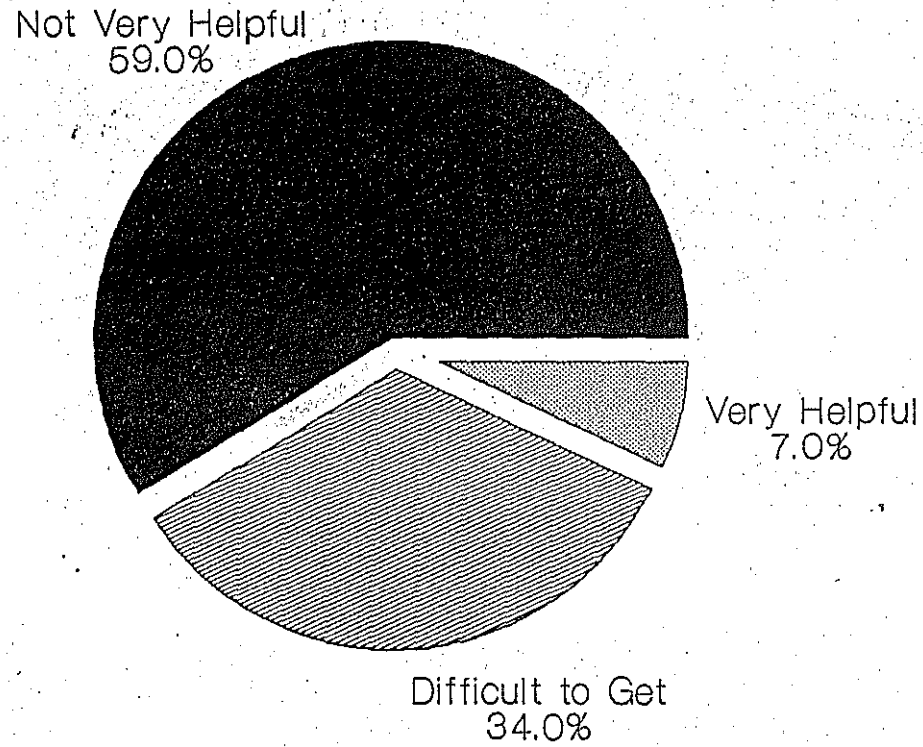
Assistance Received From MBDA-BDC Prior To or Since Graduation



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 23.

FIGURE 12

Helpfulness of MBDA In 8(A) Firm's Transition to Private Sector



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 24.

answer. Instead, comments were made that the participation time should be independent of a number of years in the 8(a) program. Participation time should be based on the individual firm's development. Sixty-four percent said they didn't have enough time in the program. Thirty-six percent said they had enough time in the program.

Summary of Recommendations for
Changes and Improvements

Recommendations for changes and improvements were solicited in open-ended format of Section E of the survey. Space was also provided for comments by graduates concerning the strength and weaknesses of the program. The following recommendations and suggestions are just a few that were made:

Retrain SBA employees and select only those who will be committed to the intent of the program.

SBA should hire personnel in all field offices that are competent and technically capable of assisting firms in contract negotiations, marketing, loan packaging, and other business development needs.

Politics and personnel biases must be removed in administering the program. Objective procedures should be developed for all portfolio firms for providing management, technical, financial, and contract assistance.

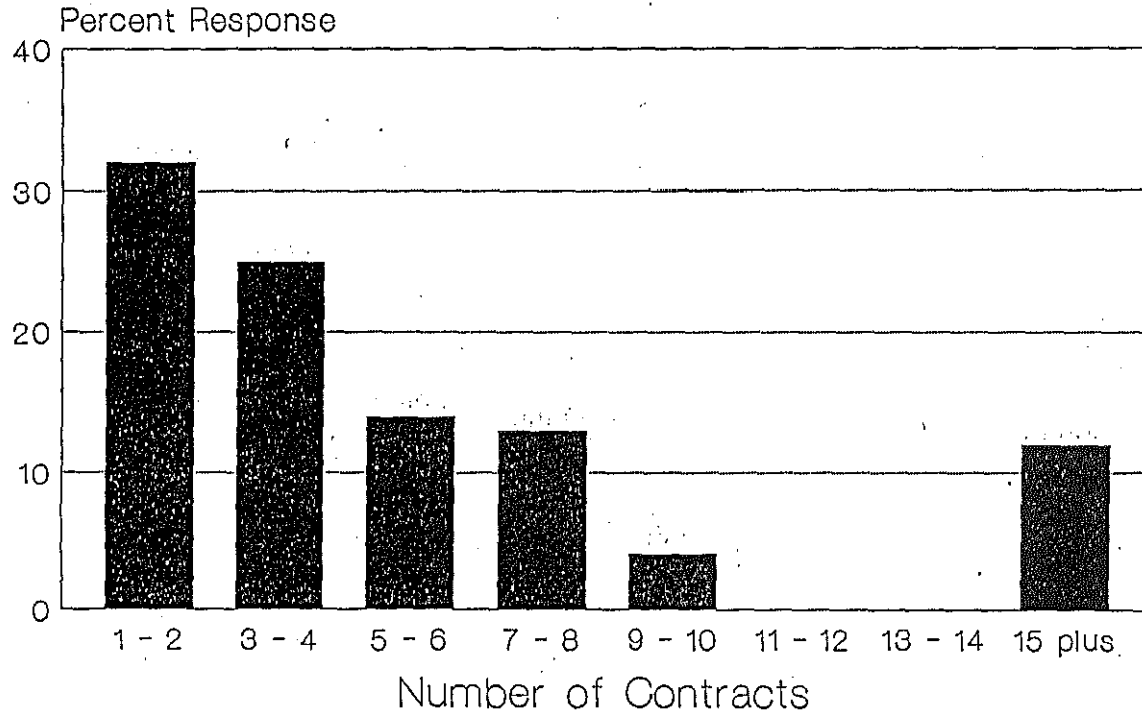
More timely management and technical or 7(j) assistance must be provided on a region-by-region basis.

Provide qualified and structured business management courses and seminars, at given intervals, for all portfolio firms as a business development requirement for continued participation in the program.

SBA should institute a transitional or phase-out program which gradually reduces a firm's dependence on 8(a)

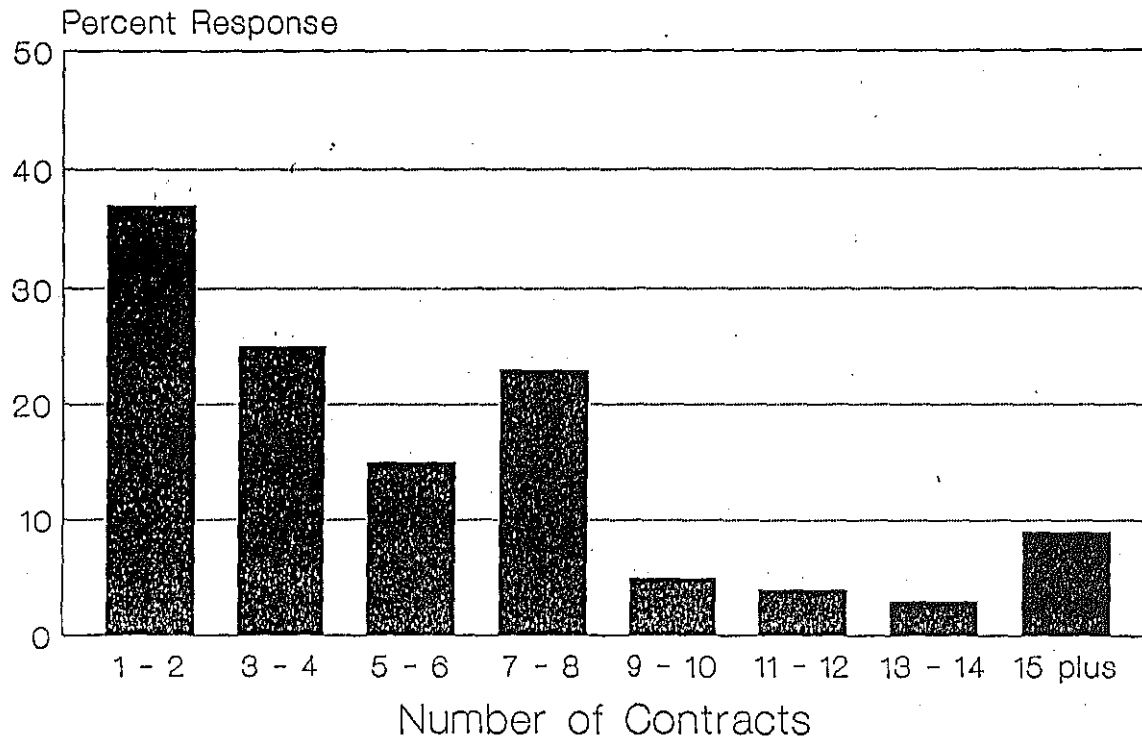
FIGURE 13A

Number of Federal Government Contracts Business Received Since Graduation



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 26.

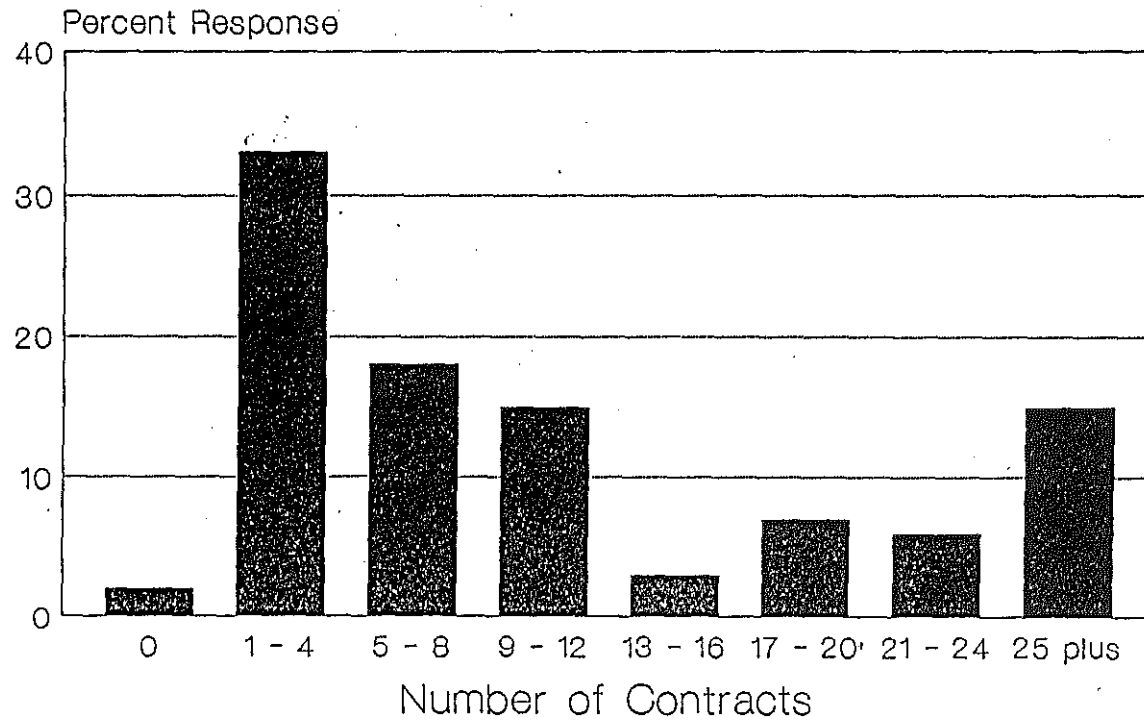
FIGURE 13B
Number of State/Local Gov't Contracts
Business Received Since Graduation



Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) 26.

FIGURE 14A

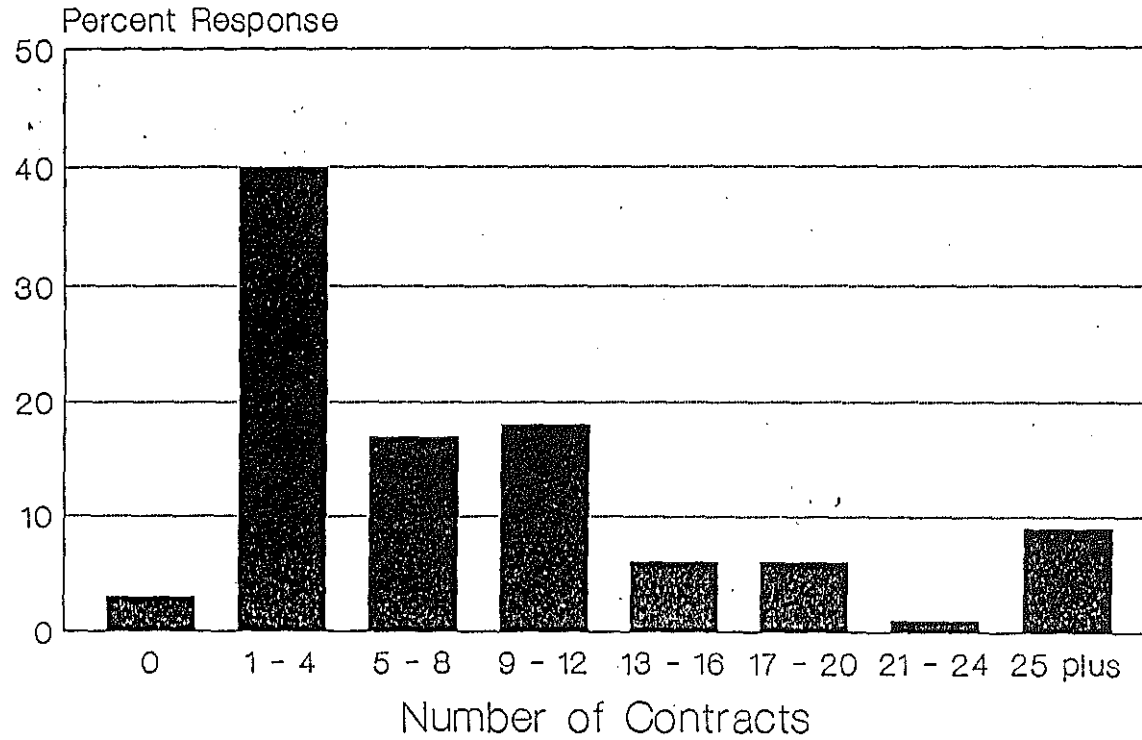
Number of Commercial Contracts Business Received Since Graduation



Source: National Academy of Public Administration, *Management Review of the Minority Small Business and Capital Ownership Development Program* (Washington, D.C.: Small Business Administration, 1987) 27.

FIGURE 14B

Number of Companies Which Commercial Contracts Were Received Since Graduation



Source: National Academy of Public Administration, *Management Review of the Minority Small Business and Capital Ownership Development Program* (Washington, D.C.: Small Business Administration, 1987) 27.

contracts and provide the expertise needed to aid firms in marketing the private sector.

Firms must be provided more concentrated management, technical, and contract assistance even if the portfolio has to be reduced; if a firm fails to show progress, it should be removed.

Increase the workforce in SBA field offices according to the size of the portfolio; each office staff should be monitored and evaluated, on an ongoing basis, for efficiency and productiveness as related to the development of firms to attain competitive independence.

The 8(a) program should be more widely publicized by SBA.

The FPPT should be increased to allow each firm sufficient time to become independently competitive; that is, to build a business base, improve its management structure and replace sole source contracts with similar ones in size and profitability. The FPPT extension should be granted on the basis of all of these factors, not just the subjective judgement of the regional administrator.⁸

⁸Ibid., 37.

CHAPTER 6

CONCLUSION

Does the 8(a) program do what it is intended to do? Does 8(a) help small minority businesses successfully transition to private sector marketplace? Yes, it does! Results of recent surveys and studies have shown conclusively that 8(a) graduates continue in business. Results also indicate that 8(a) does not guarantee success, there have been business failures among 8(a) graduates.

It can be concluded that the 8(a) program has been successful despite itself. The Small Business Administration (SBA) as an organization possesses many problems in its administration of the program. A study of the SBA identified several areas which hinder the effective management and implementation of the 8(a) program.

SBA has been plagued by a long history of slow progress in implementing reforms and improvements. Slowness has prevented SBA from reacting and implementing changes quickly. The 8(a) program receives an inadequate share of SBA resources. It is the most visible and reported program in the SBA portfolio requiring a high degree of technical competency and skill. Because of the demand for high levels of knowledge and performance there exists the need for

enhanced workforce effectiveness. "Inadequate emphasis on workforce effectiveness is the biggest single deterrent to . . . productivity."¹ The 8(a) program interacts with several other SBA programs; accordingly, it requires effective interaction and coordination within the SBA. The interagency agreement between the SBA and Minority Business Development Agency requires frequent interaction between agencies, this interaction is not happening. It must, in order to enhance 8(a) effectiveness. Problems experienced when the Senate Committee on Small Business attempted to gather information on 8(a) firms indicates a need for up-to-date management data. The committee experienced considerable problems in just locating the addresses of 8(a) program graduates.

The 8(a) program possesses several problems in itself. There is considerable uncertainty as to 8(a)'s role. Several administrators view it as a contracting program because of its heavy reliance on federal contracts as the goal of the program. Others view it as a business development program with federal contracts being just one part of the program. This latter view is correct. The SBA must eliminate this confusion and remove the "contracts program stigma." To remove this "stigma" SBA must make full use of the resources at its disposal. These include the active use of advance payments along with contract support.

¹NAPA, Management Review, V.

Political influence must be removed from the SBA as well as the 8(a) program. Micromanagement by Congress, heavy handed influence and the large number of political appointees has become a problem rather than a cure to SBA problems.

If the SBA attacks these problems aggressively, it will continue to graduate competitive firms from 8(a). The program will only increase in its effectiveness and efficiency. If the SBA does not actively address these issues, it is endangered with further stagnation, corruption, and abuse.

APPENDIXES

APPENDIX A

INTERAGENCY AGENCY AGREEMENT BETWEEN THE
U.S. MINORITY BUSINESS DEVELOPMENT AGENCY
AND THE U.S. SMALL BUSINESS ADMINISTRATION

INTERAGENCY AGREEMENT
BETWEEN THE
U.S. MINORITY BUSINESS DEVELOPMENT AGENCY
AND THE
U.S. SMALL BUSINESS ADMINISTRATION

WHEREAS, the establishment of businesses owned by socially and economically disadvantaged individuals, as well as the expansion of small businesses owned by socially and economically disadvantaged individuals, will enhance the economic prosperity of this Nation; and,

WHEREAS, small socially and economically disadvantaged minority businesses suffer institutional and other barriers in gaining access to the business mainstream; and,

WHEREAS, the Minority Business Development Agency (MBDA), under the authority of Executive Order 11625, issued October 13, 1971, provides financial and marketing assistance to public and private organizations so that they can provide technical and management assistance to facilitate the development and expansion of socially and economically disadvantaged businesses; and,

WHEREAS, MBDA coordinates the programs and operations of the Federal Government which affect or may contribute to the establishment, preservation, and strengthening of socially and economically disadvantaged minority businesses; and,

WHEREAS, the U.S. Small Business Administration (SBA) pursuant to the Small Business Act of 1958, as amended, is authorized to assist small businesses and small business concerns owned by individuals who have been determined to be socially and economically disadvantaged by providing financial, technical, management, and marketing assistance, as may be necessary; and,

WHEREAS, the U.S. Small Business Administration is authorized to operate an 8(a) business development program in which SBA contracts directly with Federal Government agencies for goods and services and subcontracts the requirements to small socially and economically disadvantaged businesses; and,

WHEREAS, the regional and field offices and activities of MBDA and SBA shall, to the fullest extent practicable and permissible by law, and subject to the availability of funds, coordinate their program activities and conduct joint projects, with a view toward conserving Government resources without duplication of efforts, for socially and economically disadvantaged minority small businesses.

NOW, THEREFORE, it is hereby understood and agreed that to the fullest extent authorized by statute, regulations and executive orders, and whenever it is feasible and practicable, MBDA and SBA hereby mutually pledge, subject to the availability of funds, the cooperative use of their resources, talents, and facilities in furtherance of providing effective and efficient assistance to the socially and economically disadvantaged minority small business community.

NOW, THEREFORE, MBDA and SBA agree to perform the following:

Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987) Appendix I.

MBDA

1. Assist SBA 8(a) minority program applicants in the completion of the necessary forms for the purpose of applying for certification in SBA's Business Development Program after positive contract support has been determined via SBA Form 1017.
2. Provide management, technical, and marketing assistance and financial counseling to 8(a) minority firms through MBDA-funded organizations on an as needed basis during their participation in the program.
3. Participate, as appropriate, in joint efforts with SBA during 8(a) firms' transitioning years in the 8(a) Business Development Program to provide marketing assistance in non-8(a) markets.
4. Upon request, continue to assist socially and economically disadvantaged minority 8(a) firms after they have completed their participation in the 8(a) Business Development Program.
5. Provide SBA, to the extent practicable, an updated listing of minority businesses contained in MBDA's PROFILE System to be used in support of SBA's Procurement Automated Source System (PASS).
6. Develop and implement a reporting system that provides management information for the purpose of monitoring the assistance provided under the Agreement.

SBA

1. Provide, as appropriate financial, management, technical and marketing assistance to 8(a) firms through its various resources, e.g., SCORE/ACE, 7(j), Small Business Institute (SBI), Small Business Development Centers (SBDC), and the PASS System.
2. Participate, as appropriate, in joint efforts with MBDA during 8(a) firms' transitioning years in the 8(a) program to provide marketing assistance in non-8(a) markets.
3. Provide MBDA, as appropriate, with current lists of those firms to be assisted through MBDA efforts at least sixty (60) days prior to entering the transitioning years.
4. Continue to provide financial, management, marketing and technical assistance, as appropriate, to qualified businesses that remain eligible for SBA programs after completion of the 8(a) business development program.

5. Provide, to the extent practicable, an updated listing of socially and economically disadvantaged small business firms contained in SBA's Procurement Automated Source System (PASS) to be used in support of MBDA's PROFILE System.
6. Develop and implement a reporting system that provides management information for the purpose of monitoring the assistance provided under the Agreement.

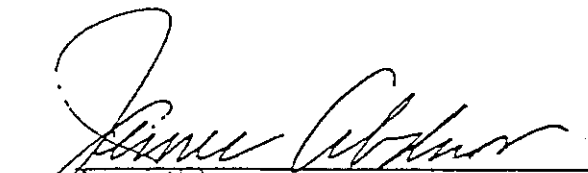
To achieve the above, MBDA and SBA shall, within 30 days after execution of this Agreement, disseminate copies of this Agreement to their respective field organizations.

Nothing in this Agreement shall be construed in any way to authorize any action of variance to existing statute, regulations, or executive orders.

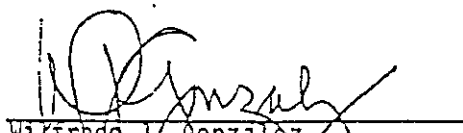
This agreement is effective as of the date shown and shall remain in full force unless terminated by one or both parties. If the termination of this Agreement is to be done unilaterally, the terminating party shall provide the other party with notice of the planned termination at least 90 days prior to the effective date of any such termination.

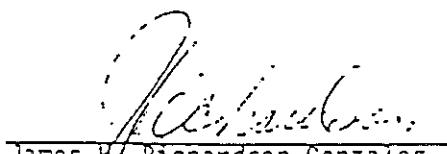
For the
U.S. SMALL BUSINESS ADMINISTRATION

For the
U.S. DEPARTMENT OF COMMERCE


James Abdnor
Administrator


Malcolm Baldrige
Secretary of Commerce


Wilfredo J. Gonzalez
Associate Administrator for
Minority Small Business and
Capital Ownership Development


James H. Richardson Gonzales
Director
Minority Business Development
Agency

EFFECTIVE DATE: May 19, 1987

APPENDIX B
SYNOPSIS OF SELECTED PAST STUDIES OF
THE 8(a) PROGRAM

Appendix B

SYNOPSIS OF SELECTED PAST STUDIES OF THE 8(A) PROGRAM

1. SBA Office of Audit, 1969

Early audit. 31 contracts had been awarded; 8 were examined. Central Office only. Serious weaknesses found.

Lack of written standards. Lack of firm criteria. Constant change. Documentation was poor on assistance given and how the price was judged reasonable.

SBA did not then feel that it was responsible for determining success of firms. Lacked basis for improving its procedures.

Was activated in early 1968 to help hard-core unemployed minorities. Later it was expanded to help minority ownership. Role was assigned to Office of Business Development. 14 personnel at the time.

Early problems involved advance payments. Even then the procuring Agencies were resisting the program.

2. Internal Audit Division, July 16, 1973

Weaknesses found in 1969 still existed. Field offices examined. Controls lacking. Full range of problems in selecting and managing program firms and assessing results. Action promised.

3. SBA Office of Audit, 1977

Needed more stringent criteria for defining 8(a) firms. Examined Regions II, III, IV, VI and IX. Adverse publicity.

SBA introduced the idea of a sponsor. Referred to a GAO study of sponsored firms, finding the need for more oversight. The audit proposed dropping the sponsorship idea and studying the SBA organization structure. This was agreed upon.

4. Interagency Report on the 8(a) Program for SBA Administrator Weaver, January 31, 1978.

Chaired by Deputy Administrator Patricia Cloherty. This report was made at a time when the program was under intensive scrutiny by the Congress, leading to the passage of PL 95-507. Seven Agencies participated.

The report concluded that the "problems confronting the program are complex and do not lend themselves to simplistic solutions". A principal conclusion was then offered: "[T]he business development goals of the 8(a) program have not been adequately supported by the necessary personnel

Source: National Academy of Public Administration, Management Review of the Minority Small Business and Capital Ownership Development Program (Washington, D.C.: Small Business Administration, 1987)
Appendix B.

resources and agency commitment that would allow reasonable expectations of program success."

This report is a remarkable document in that it was an interagency identification of the key issues which persist today. It stressed the business development mission of the program, expanded personnel resources, and a major training program to include not only procurement but financial analysis and program management. The warranting process was emphasized. Better procuring Agency support was advocated. Decentralization was advocated with Central Office oversight. The need for tight controls over BDE and advance payments was discussed, as was multi-year planning.

5. GAO, February 1978: Increase Number, Type and Timeliness of 8(a) Contracts

For Senate Small Business Committee. GAO found that to bolster the program it needed: more staff to develop the portfolio; better MIS; improved technical and management assistance; and better use of business development funds. Refers to a 1975 study on the difficulty SBA faced in controlling the flow of contracts into the SBA from the Agencies. From 1967 to 1977 awards of \$1.6 billion had been made. There were 1497 firms on September 30, 1977, and 139 had been graduated.

The program was managed through the Assistant Regional Administrator for Procurement Assistance and District Directors. There were Business Development Specialists--the middlemen for securing contracts from the procuring Agencies and seeing that assistance was provided to the 8(a) firm.

There were PCRs (Procurement Center Representatives) throughout the United States at Federal Agencies to increase the share of awards to small businesses. PCRs arranged set-asides when enough competition existed. Negotiation was handled by Contract Negotiators. The report made reference to an Interagency Committee which set goals and to the SBA Office of Minority Business Enterprise, which arranged assistance. Thin staffing, lack of information and under-use of Business Development funds were problems.

6. GAO, March 1978: How Eligibility Criteria Are Applied

House Committee on Small Business, Subcommittee on Minority Enterprise and General Oversight. Region IX was chosen for case studies. Found eligibility criteria vague. Files did not document the reason for eligibility in individual cases. Offices differed in their interpretation of the criteria for eligibility. There was disagreement as to whether the test was social or economic.

7. SBA Office of Audit, January 1979: Review of Business Development Expense

The study found lack of adequate justification and control over use of these funds. Capital equipment purchased not justified. Regions varied widely.

8. OIG External Audit, April 1979: Advance Payments to Subcontractors

Covered 27 8(a) firms in six Regions. Found differences among Regions in extent of delegation to Districts.

Found wide abuses of purpose and controls. Of \$61 million, \$17 million estimated to be noncollectible. \$1.5 million already written off--or a total of 11.9%. 78% of problems in New York City. Job of the Associate Administrator for Procurement Assistance. Justice Department would pursue four cases. Eleven recommendations to include relations with other support programs like Business Development Expense. Authority was 41 USC Section 255. It is of interest that in this time frame a new Associate Administrator for Minority Small Business was being established to pick up the program from the Associate Administrator for Procurement Assistance.

143 contractors had received payment advances; four Regions had provided almost none: V, VII, VIII and X. Regulations permitted advances of up to 90% of the price.

Key recommendation was that each Region designate a qualified individual to monitor and control transactions.

9. IG Internal Report, August 1979: General Management

Of 1505 firms reviewed, 526 were problems. Most of the problems were in Regions II, III, VI and IX. III had by far the biggest problems. 29 had been referred for other investigation.

Criteria covering ownership and control inadequate. Eligibility criteria were inadequate. More objective procedures for graduation needed. Failing firms needed to be terminated. Terminated firms needed to be removed from the program. Terminations were possibly needed for illegal or improper actions.

10. GAO, January 1981: Pilot Program Has Not Been Effective

PL 95-507 of October 1978 authorized a two-year pilot program with one Agency designated by the President. The regular program was a volunteer program. The pilot was a demand program by SBA. GAO was mandated by PL 95-507 to evaluate the two-year pilot program. Army was selected as the pilot Agency. Later, under PL 96-481, the President designated NASA, DOT and DOE as pilot Agencies.

Initial awards poor. Firms not well evaluated to receive contracts. Field offices not used.

Purpose of the 8(a) pilot program not agreed upon. Was it for bigger contracts or high tech? Was it to get more procurements from Agencies which had not had a good 8(a) history? GAO favored the latter. Army was then the best Agency in the program.

Found that SBA should demand contracts not normally part of 8(a) and assure qualified firms were chosen. Improved data base on firms needed. Stated OIG should be used to assess success.

11. GAO, April 1981: An Unfulfilled Promise

One of a series under PL 95-507. 4598 firms in 12 years. \$5.5 billion. 2000 firms active. Noncompetitive contracts, plus management, technical, marketing and financial aid. Only 166 graduates. Several firms in program 7 to 11 years. GAO questioned whether 28% of the firms in its sample should remain. Most firms viewed the program as an end in itself and were just interested in more business. Over half were dissatisfied with SBA. Found that keeping firms in too long denied help to others, and that Procuring Agencies and big businesses should shoulder more of the burden.

Goals were in terms of dollar volume and number of firms. In 1980 the dollar goal was \$3.8 billion, of which \$1.6 billion was to be 8(a) and \$2.2 billion was to be direct prime awards and subcontracts by prime contractors. Forced SBA to play a numbers game as a "contract broker" instead of serving as a real helper in developing competitive businesses.

PL 95-507 was supposed to have given greater emphasis to Business Development. The number of Business Development Specialists was increased from 64 to 126 in three years, but the number of firms increased from 1482 to 2138. Total number of contracts awarded in 1980 was 5086.

Recommended that a BDS should have only 8-10 firms, instead of the 17 that a BDS had in 1980. Many BDSs lacked skills. Most were outreach specialists, and BDSs also had to process applications and make field trips.

Criteria for graduation were subjective. Files inspected showed that at least one year of business plan data and financial results were missing from a high percentage of the files.

PL 96-481 was designed to put more discipline into the graduation process. But the vague criteria worked against this.

Alternatives presented:

- A. Continue present effort. Try to overcome problems. Probably means less attention to Business Development Program.
- B. Reduce size as proposed in 1975. Yet this may not be realistic—it has steadily grown.
- C. Establish a two-tier program. This would provide noncompetitive awards for a predetermined period, and then participation in a special Set-Aside Program on a competitive basis. Then graduation.
- D. A Set-Aside Program only. SBA would not be the middleman.

Found that SBA should fill vacancies and train BDSs. SBA was critical and preferred Alternative A. GAO urged more attention to adverse effects on other disadvantaged firms.

12. GAO, October 1981: Misuse for Purchase of ADP Equipment Has Increased Costs

Report to Brooks. The problem was one of allowing 8(a) firms to simply be brokers and to allow Agencies to buy ADP equipment that could not otherwise be justified. SBA contended it was moving to remove these abuses.

13. IG Audit on Norman Hodges & Associates, December 1981

Possible criminal behavior of firm enrolled since 1977. SBA provided \$2 million in assistance for a \$200,000 micrographics contract over a ten-month period. Included \$850,000 for capital equipment and \$300,000 for working capital. More qualified firms were available. Loans were made without statutory authority. A Management Assistance (7(j)) contractor was also an officer of the 8(a) firm and received consulting fees of \$295,000.

14. IG Study, May 1983: Business Development Expense

A very sharp report that recommended discontinuing the BDE because of a lack of competence in the whole system--the 8(a) firms, the procuring Agencies and the SBA.

Suggested several options: equal distribution of funds; requiring procuring Agencies to do cost and price analysis; greater use of the loan program in lieu of BDE; better training of BDSs; dollar limits.

No statutory authority. It came from the Business Loan Investment Revolving Fund. Began to use in 1971. Total by 1983 was \$83 million to 594 firms on 1334 contracts.

15. FIA Report of FY 1986

The report for 1986 praised the SOP development for 8(a) MSB/CID.

It found two areas needing attention:

- o Exit interviews with clients receiving 7(j) assistance. They would be permitted under revisions to the SOP.
- o Quarterly financial statements by participants. Uneven compliance. Would start annual review and terminate those not complying.

Also reported that better control of accounting and funds control processes were needed under the 8(a) contracts.

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TITLE Has The Small Bus. Admin. Minority Bus. Dev. Program.....	
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