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SMALL BUSINESS

Expectations of Firms in SBA's 8(a) Program Are Not Being Met

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Mr. Chairman and Members of the Committee:

We are here today to discuss our reviews of the Small Business Administration's (SBA) 8(a) program. The 8(a) program is one of the federal government's primary vehicles for developing small businesses owned by socially and economically disadvantaged individuals. Firms in the program are eligible for contracts that federal agencies set aside for 8(a) firms and may receive technical assistance and management training from SBA. In the 8(a) program, SBA has to consider the needs of 8(a) firms seeking to obtain federal contracts that may help their small business succeed along with the needs of federal agencies seeking to maximize their procurement dollars. In fiscal year 1999, about 6,000 small businesses participated in the program, and $6.2 billion was awarded in 8(a) contracts.

Our testimony is based on two reports, prepared at your request, that are being released today--one on the overall focus of the program and one addressing the 8(a) information system.[1] We would like to highlight two main points that our reports make about the 8(a) program.

- First, SBA's efforts are not aligned with the needs or expectations of 8(a) firms. SBA has never surveyed its customers--the 8(a) firms--in a meaningful way to determine what experience they have or what their needs are. We surveyed 1,200 firms participating in the 8(a) program and found that firms want SBA to provide them with more assistance that will help them obtain contracts.[2] Firms did not place a high priority on learning to manage a business because a large majority of the firms had owners with over 10 years' experience managing a business. In providing assistance, we found that SBA has emphasized business management skills, even though most firms joined the program to obtain 8(a) contracts. This misalignment of SBA's efforts

[1]See *Small Business: SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts* (GAO/RCED-00-196, July 20, 2000) and *Small Business: SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission* (GAO/RCED-00-197, July 20, 2000).
[2]We conducted a nationwide mail survey of 1,200 firms randomly selected from SBA's database of 5,432 active 8(a) firms. Our survey response rate was 71 percent and our results can be generalized to the entire population of active 8(a) firms as of September 30, 1999.

and the needs of 8(a) firms has been further compounded by the fact that most 8(a) contract dollars go to a small number of firms. We recommended that SBA take a number of actions, including periodically surveying 8(a) firms, to better meet the needs of the firms in the program. SBA agreed with our recommendations.

- Second, SBA has no way to tell how well the 8(a) program is working. Almost a decade ago, we first reported that the agency did not know the full extent of business development assistance provided for firms. Yet, SBA still does not have a tracking system in place. SBA did pilot a Business Assessment Tool in 1999 that would evaluate firm's business development needs, but at the time of our review, agency officials were still evaluating the results of the pilot. Changes in the contracting process have undermined the accuracy of SBA's contracting data. As a result, SBA lacks the ability to measure the 8(a) program's performance in such basic areas as determining the level of training provided, whether that training matched firms' needs, or even the amount of 8(a) contracts that firms obtained. We recommended, several steps that SBA agreed it should take to ensure that it collects data on appropriate performance measures.

Background

SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small business and by helping businesses and families recover from natural disasters. SBA's new budget authority for fiscal year 2000 is $886 million. SBA administers small business programs such as the 7(a) loan program, which provides loan guarantees to small business owners unable to secure financing on reasonable terms through normal lending channels, and the 8(a) program, through which qualified firms are eligible for federal contract set-asides. SBA also provides small businesses with assistance through the agency's partnerships and business centers. SBA's disaster loan program offers financial assistance to businesses and families trying to rebuild in the aftermath of a disaster.

The Small Business Act, as amended, authorizes the 8(a) program. The purpose of the program is to help eligible small socially and economically disadvantaged businesses compete in the American economy through business development activities. Toward this end, the Congress made three major legislative attempts—in 1978, 1980, and 1988—to improve SBA's administration of the 8(a) program and to emphasize its business development aspects. The Congress enacted the 1988 act and subsequent amendments partly because the program was not developing firms in the program into viable businesses. To remedy this and other problems, the 1988 act made a number of changes to improve the 8(a) program's organization and participation standards, business development activities, and overall management.

To be certified by SBA for participation in the 8(a) program, applicants must show that their firm is owned by socially and economically disadvantaged individuals, meets SBA's small-business-size standards, and has a reasonable potential for success. Firms in the program are eligible for contracts that federal agencies set aside for 8(a) firms. However, 8(a) firms are not guaranteed success in obtaining contracts. According to 8(a) program regulations, firms may also receive SBA's business development assistance, such as contract support, financial assistance, training in developing business strategies to enhance a firm's ability to compete for contracts, training in transitional business planning, and assistance in forming joint ventures with other firms. The firms' 9-year program participation is divided into two stages—a developmental stage covering years 1 through 4, and a transitional stage covering years 5 through 9. During the transitional years, firms are required to meet certain non-8(a) business contract levels in an effort to ensure that firms do not develop an unreasonable reliance on the program.

SBA's Efforts Are Not Aligned With Firms' Needs and Expectations

Although the purpose of the 8(a) program is to provide business development to assist eligible small disadvantaged firms compete in the American economy, SBA has never surveyed its customers--the 8(a) firms--in a meaningful way to determine what experience they have or what their needs are. We surveyed 1,200 firms participating in the 8(a) program and found that firms want SBA to provide them with more assistance

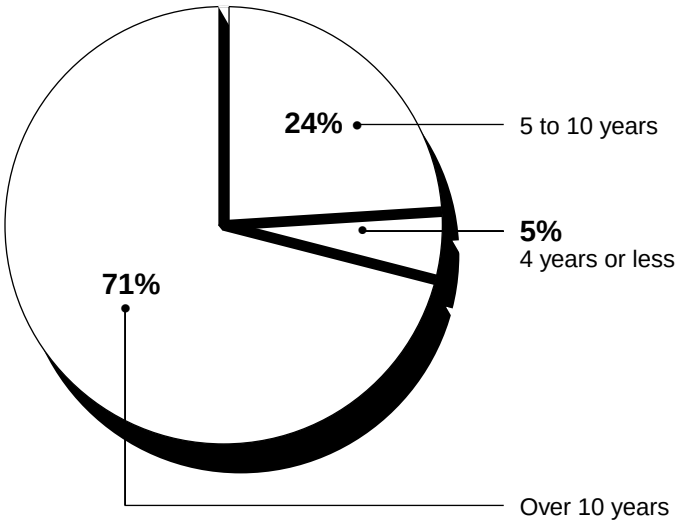
that will help them obtain contracts. Firms did not place a high priority on learning to manage a business because a large majority of the firms had owners with over 10 years' experience in managing a business. Yet, in providing assistance, we found that SBA has emphasized business management skills, even though most firms joined the program to obtain 8(a) contracts and were more satisfied with the program if they received a contract. This misalignment of SBA's efforts and the needs of 8(a) firms has been further compounded by the fact that most 8(a) contract dollars go to a small number of firms.

Few Firms Join to Learn How to Manage a Business, but SBA Emphasizes Management Training

According to our survey data, most firms would like to see SBA place a greater emphasis on increasing 8(a) contract opportunities. For example, 90 percent of those surveyed want SBA to place a high priority on increasing efforts to link 8(a) firms with specific federal program managers. Over 80 percent would like SBA to make sure that contacts at federal agencies are familiar with the program. Furthermore, 83 percent of the survey respondents want SBA to increase the number of ways the agency informs 8(a) firms about contract opportunities.

On the other hand, our survey results showed that only 22 percent of the firms considered learning more about managing a business to be a major reason for joining the 8(a) program. One reason why firms did not place a higher priority on learning to manage a business is that a large majority of 8(a) firms already had substantial business experience. As shown in figure 1, 71 percent of the firms had owners with over 10 years' experience managing their current 8(a) firm and other companies. Furthermore, over 50 percent of the firms we surveyed were in business 5 years or more before joining the program. One respondent wrote in his survey that his company had been in business 12 years before being certified as an 8(a) firm. Another respondent wrote that he had over 20 years' business experience and just needed help finding contracting opportunities, which he had not yet received from his local SBA office.

Figure 1: Owners' Experience Managing Current 8(a) Firms and Other Companies



Source: GAO's survey of 8(a) firms.

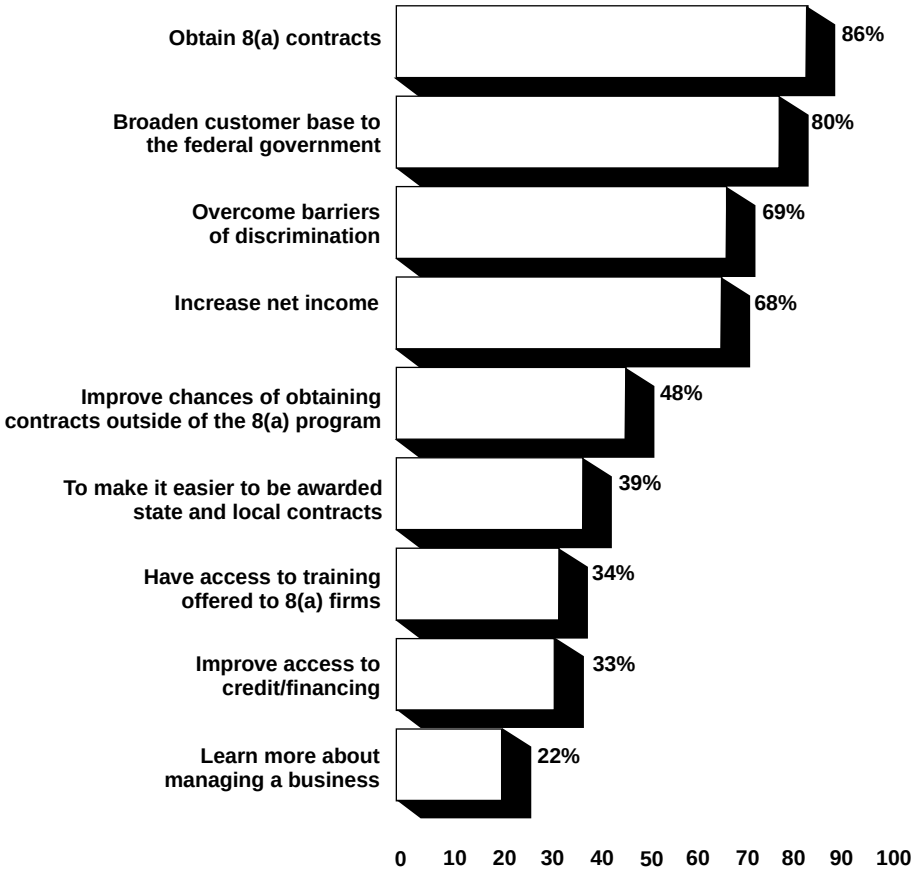
SBA, however, has emphasized business management skills instead of the contracting opportunities and related training that firms want. For example, since fiscal year 1996, SBA has devoted 40 to 50 percent of its $2.6 million 8(a) training budget to executive education for 8(a) firms.[3] A senior SBA program adviser estimated that about 10 percent of the 8(a) firms have had their executives participate in this training, which focuses on developing the skills of an 8(a) firm's president or chief executive officer. The remaining training resources are divided among contracts with various universities and other providers. The 8(a) Business Development Mentor-Protégé Program, which encourages private-sector relationships with mentors, is designed to help 8(a) firms compete more successfully for contracts through assistance, such as financial, technical, and management assistance provided by their mentors. Yet, this program also serves a limited number of firms. As of April 2000, SBA only had 40 mentor-protégé agreements in place.

[3]Executive education training is given to select 8(a) firm executives who are nominated for participation by SBA district offices and is provided through SBA's 7(j) Management and Technical Assistance Program.

Firms Join the Program Primarily to Obtain Contracts, and Their Satisfaction Is Tied to Receiving Contracts

Although SBA has emphasized training for the 8(a) firms, our survey results showed that a major reason that 86 percent of the 8(a) firms cited for joining the program was to obtain federal contracts, especially those set aside for the 8(a) program. As shown in figure 2, a significant number of the firms we surveyed also entered the program to broaden their customer base to include the federal government, overcome barriers to discrimination, and increase their net income.

Figure 2: Major Reasons Firms Joined the 8(a) Program



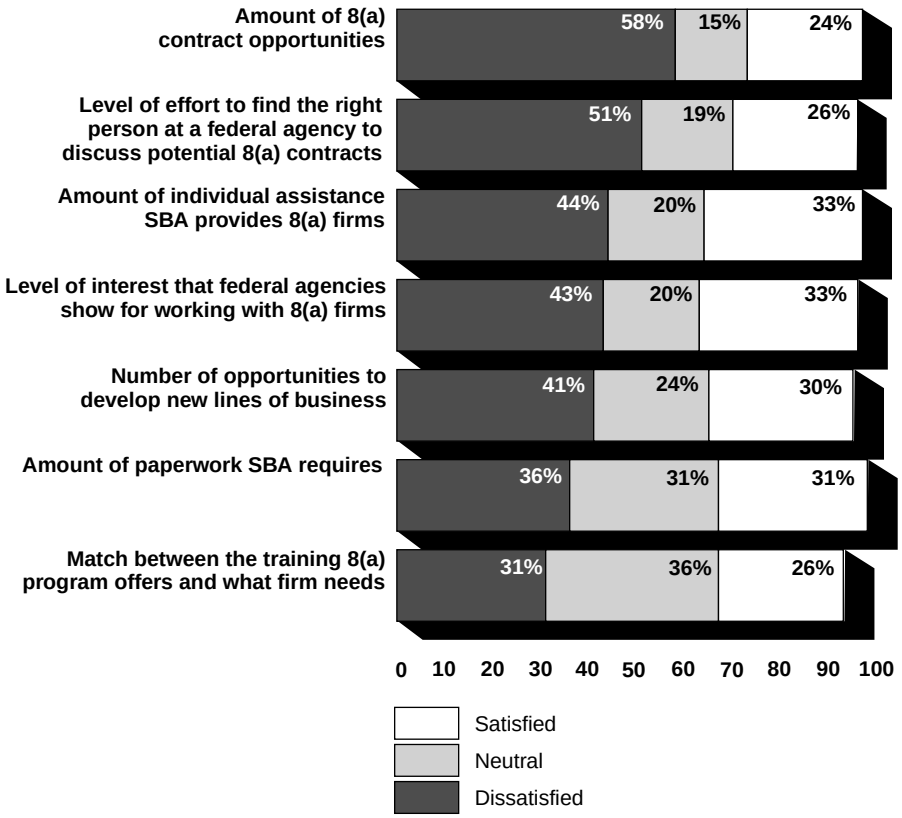
Source: GAO's survey of 8(a) firms.

We found that firms' overall satisfaction with the program was mixed, but firms that received 8(a) contracts were more satisfied than those that did not. For example, over

48 percent of the firms in the program for at least 2 years that had obtained at least one 8(a) contract were satisfied with the program. However, only about 9 percent of the firms in the program for at least 2 years that had not obtained an 8(a) contract were satisfied. For example, one respondent wrote in her survey that she is frustrated because her firm spent a considerable amount of money marketing to various federal agencies for over 2 years but had no results to show for it.

When asked about satisfaction with general aspects of the 8(a) program, firms expressed the most dissatisfaction with two items relating to contracting issues. As shown in figure 3, 58 percent of the 8(a) firms indicated that they were dissatisfied with the amount of contracting opportunities afforded by the program. Over half the firms surveyed were also dissatisfied with their efforts to find the right contact at a federal agency to discuss potential 8(a) contracts. Additionally, over 40 percent were dissatisfied with the amount of individual assistance that SBA provides and the level of interest that federal agencies show for working with 8(a) firms. One respondent commented in the survey that his firm has not received any assistance from its business opportunity specialist in over 5 years. Another respondent also wrote that he did not even know whom to contact at SBA and that the only information that he receives from SBA is paperwork for recertification and requests for financial information. Another respondent wrote that federal agencies are reluctant to use the 8(a) program.

Figure 3: Major Reasons for Firms' Satisfaction and Dissatisfaction With the 8(a) Program



Note: Those who responded "uncertain" were not included in this figure. As a result, totals do not tally to 100 percent.

Source: GAO survey of 8(a) firms.

A Small Number of Firms Continue to Receive Most 8(a) Contracts

Firms' success at obtaining these contracts has been a long-standing concern of the Congress, GAO, and the SBA Inspector General. In amending the 8(a) program in 1988, the Congress sought to improve the fair and equitable distribution of federal contracting opportunities by increasing the number of competitive small businesses owned and controlled by socially and economically disadvantaged individuals. Nonetheless, as our prior reports[4] and those of the SBA Inspector General have noted, (1) a large percentage

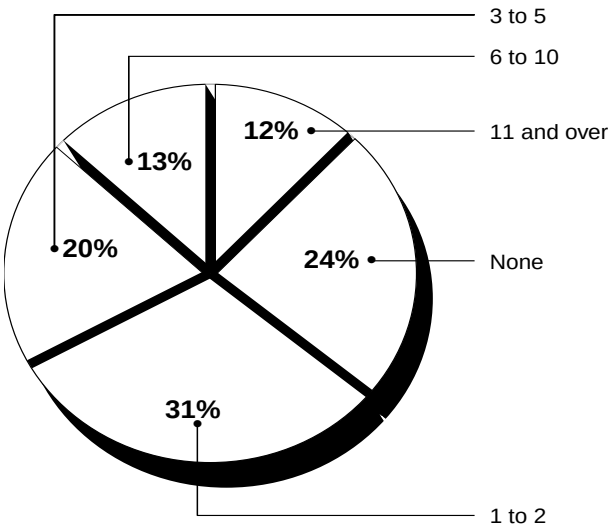
[4]See *Small Business: Problems in Restructuring SBA's Minority Business Development Program* (GAO/RCED-92-68, Jan. 31, 1992), *Small Business: Problems Continue With SBA's Minority Business Development Program* (GAO/RCED-93-145, Sept. 17, 1993*), Small Business: SBA Cannot Assess the Success of Its Minority Business Development Program* (GAO/T-RCED-94-278, July 27, 1994), *Small Business: Status of SBA's 8(a) Minority Business Development Program* (GAO/T-RCED-95-149, Apr. 4,

of the total dollar value of program contracts was awarded to very few firms and (2) about half the firms in the program in a given year receive no 8(a) contracts. For example, our analysis of SBA's program data for fiscal year 1998 showed that 50 percent ($3.2 billion) of the dollar value of the 8(a) contracts and modifications went to only 209 of the over 6,000 firms in the program, while over 3,000 firms did not get any program contracts. The Inspector General also listed the concentration of 8(a) contracts among a few firms as 1 of the 10 most serious management challenges facing SBA in both fiscal years 1999 and 2000. The concentration of program contract awards has also been reported as a material weakness in SBA's Federal Managers Financial Integrity Act Report every fiscal year since 1994.

According to our survey results, many firms have yet to receive an 8(a) contract. For example, as shown in figure 4, 24 percent of our survey respondents who have been in the program for at least 2 years have not obtained an 8(a) contract, and over half have gotten two or fewer contracts. Of those survey respondents who primarily joined the program to obtain contracts and who have been in the program for at least 2 years, 35 percent indicated that they have not been successful in obtaining a contract. One survey respondent wrote that her firm is going into its 4th year in the program without obtaining any 8(a) contracts. The respondent wrote that her firm was under the impression that SBA staff would assist it in contacting federal agencies and obtaining these contracts. Instead, she said the firm has had to use its time and resources to fill out the paperwork required by SBA but has nothing to show for its efforts.

1995*),* and *Small Business: Status of SBA's 8(a) Minority Business Development Program* (GAO/T-RCED-96-259, Sept. 18, 1996).

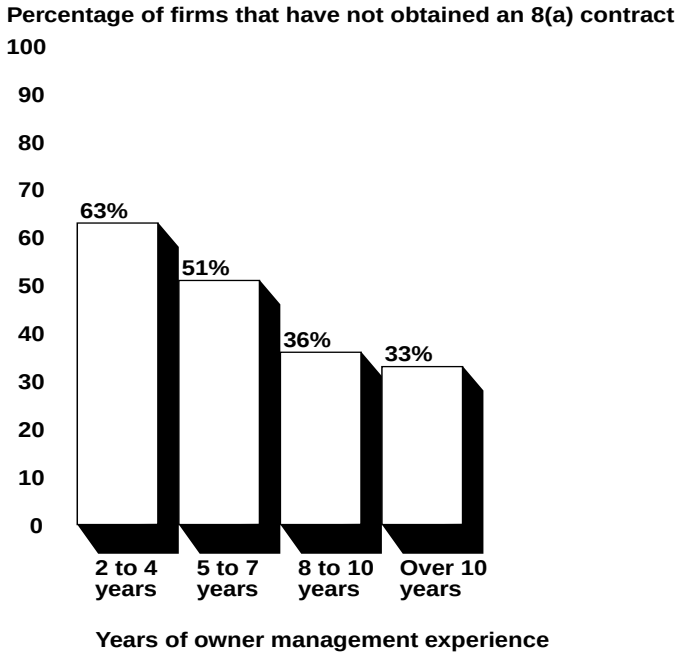
Figure 4: Number of 8(a) Contracts Awarded to Firms That Have Been in the 8(a) Program at Least 2 Years



Source: GAO survey of 8(a) firms.

In our analysis of the survey data, we examined the relationship between firms that have not yet obtained 8(a) contracts and the number of years of the owners' overall owner management experience. The survey data indicate that firms that have owners with less management experience are not as likely to obtain 8(a) contracts as firms with more experienced owners. As illustrated in figure 5, nearly 63 percent of the firms surveyed that have owners with 2 to 4 years' management experience have not obtained a contract.

Figure 5: Percentage of Firms That Have Not Obtained an 8(a) Contract on the Basis of the Owners' Management Experience



Source: GAO survey of 8(a) firms.

SBA agrees that the concentration of 8(a) contracts among a few firms is a problem and has made changes to the 8(a) program in an attempt to reduce the concentration. However, SBA officials said that it is reasonable that not all firms in the program will receive 8(a) contracts. According to SBA, 8(a) firms are no different from other small businesses—some will be more successful than others. Among the factors that SBA said defined a firm's success in obtaining 8(a) contracts are the firm's proximity to federal agencies; the firm's capabilities, access to credit and capital, and effective marketing; and the share of each federal agency's prime contracting dollars that are devoted to the program. SBA officials also stressed that according to program regulations, admission into the program does not guarantee that a participant will receive 8(a) contracts. In addition, SBA relies on other federal agencies to make the contract awards, and federal procuring officials are confronted with the competing objectives of accomplishing their agency's mission at a reasonable cost and achieving the 8(a) program's business development goals.

SBA Can Not Tell How Well the 8(a) Program Is Working

SBA remains unable to track the training and assistance it provides for 8(a) firms, but did pilot a Business Assessment Tool in 1999 that would evaluate firms' business development needs. At the time of our review, SBA officials were still evaluating the results of the pilot. In addition, changes in the contracting process have undermined the accuracy of SBA's contracting data. This lack of systematic data impairs SBA's ability to measure the program's overall performance and to determine what assistance firms need.

SBA Does Not Have a System for Tracking Business Development

SBA lacks a systematic way of tracking the business development services that firms need and receive. In January 1992, we reported that the full extent of the management and technical assistance provided for 8(a) firms was unknown because SBA did not have a computer network that enabled the agency to collect this information.[5] In September 1996, SBA testified it had an automated information system that enabled the agency to monitor, among other things, what kind of assistance was provided for firms and what progress was made with business development. However, SBA's Deputy Assistant Administrator for Technology said that this capacity was never used because funding for training has been reduced. The 8(a) program manager told us that, if information on training and assistance is needed, headquarters would send an information request to the district offices, which would provide the information. Yet, SBA's district office officials in Atlanta, Dallas/Ft. Worth, New York City, and San Francisco told us that they do not have a system to track training information.

In an effort to better identify what type of assistance and training an 8(a) firm requires and what the firms receive, SBA piloted an automated Business Assessment Tool in July 1999 at 14 of SBA's district offices. The assessment tool was designed to match information from a series of 58 questions that assess the firm's developmental assistance

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[5]See *Small Business: Problems in Restructuring SBA's Minority Business Development Program* (GAO/RCED-92-68, Jan. 31, 1992).

needs with the business training and counseling resources provided by SBA and other service providers. The tool also provided a mechanism for tracking the training and assistance recommended. SBA officials said that the tool, which is not integrated into SBA's current information system, is being reassessed because the pilot showed that it needed to be more user friendly. For example, if a business opportunity specialist were not able to complete all the data entries in one session, the tool would not save the entries already completed.

SBA's Information on 8(a) Firms' Contracting Activity Is Incomplete

SBA does not know which 8(a) firms are getting which contracts. When the contracting authority for 8(a) was delegated to federal contracting agencies in 1997 and 1998, SBA no longer required federal agencies to provide SBA with copies of 8(a) contracts for entry into the 8(a) database. Instead, the agency planned to get contacting data from the Federal Procurement Data System (FPDS)—a central source of federal contracts of over $25,000 that is maintained by the General Services Administration. However, SBA did not begin using FPDS until mid-fiscal year 2000 and found that considerable staff effort was needed to match contracting records from FPDS with SBA's demographic records on 8(a) firms. Matching records is necessary for SBA to tell which firms got which contracts. SBA said that it intends for future 8(a) systems development to simplify and automate the matching process.

Even though the information system lacks data on a significant number of contracts, staff in every district we visited said that they are still required to spend time entering into the system the contracting data they do have even if it is of little or no use to them. For example, one official estimated that the 8(a) contracting amounts for fiscal year 1999 are underrepresented in SBA's system by about $1.8 billion when compared with FPDS.

SBA officials told us that they plan to update the 8(a) information system as part of an agencywide information systems modernization initiative and have begun the development of a strategic information technology plan for the office that oversees the

8(a) program. The testimony of Joel Willemssen later in the hearing will further discuss SBA's information technology management processes.[6]

SBA's Lack of Systematic Data Impairs Its Ability to Measure Program Performance

SBA managers acknowledged that the lack of a system to track and assess the results of business development activities creates a weakness for the program because it is difficult to assess the program's effectiveness. The officials said that their system's inability to record training and assistance could lead to an underaccounting of the benefits that firms receive from the program. For example, a district manager noted a case in which an 8(a) firm received considerable assistance in developing its marketing and other capabilities. This firm, through the auspices of the district office, later negotiated and won a contract with a commercial firm. However, this outcome could not be credited within the system because (1) staff have no way of recording the training and assistance provided to firms, other than in informal notations, and (2) the contract awarded to the firm was not an 8(a) contract, so the award information could not be noted in the system.

In addition, the lack of accurate contracting data has made tracking program performance difficult. Because of the lack of data, district offices cannot readily produce accurate reports on the number of contracts awarded to 8(a) firms in their district. For example, staff in one district office said they had been questioned by their district office director about why the number of contracts awarded to firms in their district had decreased dramatically. The matter was not really that the number of contracts was decreasing, but that the information system lacked data on an estimated 50 percent of the contracts awarded.

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Mr. Chairman, this completes our prepared statement. We would be happy to respond to any questions from you or members of the Committee.

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[6]See *Information Technology Management: Small Business Administration Needs Policies and Procedures to Control Key IT Processes* (GAO/T-AIMD-00-260, July 20, 2000).

Contact and Acknowledgement

For future contacts regarding this testimony, please contact Stanley J. Czerwinski at (202) 512-7631. Individuals making key contributions to this testimony included Susan Campbell, Andy Clinton, and David Lewis.

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