

The ghosts of small businesses past

- By [Matthew Weigelt](#)
- Aug 22, 2011

In June, many agencies proudly tweeted that they had received an A from the Small Business Administration because they did such a good job of awarding contracts to small companies in fiscal 2010.

And although SBA shared their enthusiasm, many critics say the recognition is unfounded because the program is fundamentally flawed.

The government awarded nearly \$98 billion in federal contracts to small businesses last year, or 22.7 percent of eligible contracting dollars, according to SBA. The goal was 23 percent. It was the second year in a row that the money going to small businesses went up, and it was the largest two-year increase in more than a decade.

"We're obviously excited about the progress we've made," said Joe Jordan, associate administrator of government contracting and business development at SBA, during a conference call June 23, the day before the score cards were released.

Ten of the 24 agencies that SBA evaluated received a higher grade in 2010 than they did in 2009, while 10 agencies' grades stayed the same. SBA gave 13 As, five Bs, four Cs and two Ds. SBA received a B, as did the government as a whole.

However, many experts say the grades aren't accurate because the businesses that are winning the contracts often aren't small.

Agencies routinely get credit for awarding contracts to small businesses that have outgrown that status or been bought by large corporations. Therefore, in many cases, a small business is no longer doing the work.

So are the scores correct?

"I think the answer is no," said Sen. Rob Portman (R-Ohio), ranking member of the Homeland Security and Governmental Affairs Committee's Contracting Oversight Subcommittee.

Likewise, Sen. Claire McCaskill (D-Mo.), the subcommittee's chairwoman, went so far as to call the 23 percent small-business goal "an empty achievement."

She told Jordan during a recent hearing that "by taking the position you're taking, you're essentially saying to the public, 'By the way, we're saying 22.7, but don't believe it.'"

However, Jordan said agencies are doing exactly what the program was designed to help them do: Award contracts to small businesses and watch the companies grow big.

Federal rules allow a company to maintain its small status for as long as five years before it must recertify its size. At that point, any small-business contracts it holds either maintain their classification or are reclassified based on the company's new status.

That approach is an improvement, Jordan said. The policy used to be "once a small-business contract, always a small-business contract." It didn't matter who bought the company or how large it grew.

Nevertheless, some acquisition experts see the issue as Portman and McCaskill do. And they see the scoring as shady.

Sure, the program follows the rules and might be technically correct, said Jaime Gracia, president and CEO of Seville Government Consulting, a federal acquisition and program management consulting firm. But there's plenty of room for tougher standards and clarity about a company's size.

He said federal officials should require companies to certify their size every year to get a true picture of small-business contracting. That's not happening now, which means "SBA is asleep at the switch," Gracia said.

Guy Timberlake, co-founder and chief visionary officer at the American Small Business Coalition, said there should be changes in how agencies set aside contracts and how officials oversee them. And the government must enforce size standards so that small companies can reap the benefits.

He said a program that encourages subcontracting with small companies would help. When a small business that holds a set-aside contract grows too large, it should award a certain percentage of subcontracts to small firms for each upcoming option year of the contract. Agencies should make that expectation clear when they award the set-aside contracts and get a firm commitment from the companies.

Without such changes, "doing business as a true small business in the federal sector will continue to be — at least in part — an aggravating exercise," Timberlake said.

About the Author

Matthew Weigelt is a senior writer covering acquisition and procurement.