

TESTIMONY

of

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Committee on Oversight and Government Reform Policy

Subcommittee on Government Management, Organization and Procurement

Hearing on

“Minority Contracting: Opportunities and Challenges for Current and Future

Minority-Owned Businesses”

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HOLD UNTIL RELEASED BY THE COMMITTEE

Good morning Chairman Watson, Ranking Member Bilbray, Vice Ranking Member Schock, and Committee Members. I am Linda Oliver, Acting Director of the Office of Small Business Programs of the Department of Defense.

Thank you for the opportunity to appear before you today to discuss, on behalf of the Department of Defense, Minority Contracting: Opportunities and Challenges for Current and Future Minority-Owned Businesses. The Department of Defense (DoD) is committed to providing maximum practicable opportunities to all small businesses, including small disadvantaged businesses and 8(a) small business concerns that are in the U.S. Small Business Administration's (SBA) business development program. We consistently exceed the Government-wide 5 percent goal for small disadvantaged businesses, so I am particularly pleased to discuss our efforts.

I will start by bringing to your attention some of the existing data limitations we face when we look at current minority contracting opportunities and challenges within DoD. My testimony will however specifically summarize the Department's contracts with small disadvantaged businesses (SDBs) and 8(a) small business concerns over the last several years. I will then provide information about the DoD SDB and 8(a) accomplishments for contract awards made under the American Recovery and Reinvestment Act of 2009. Third, I will highlight some of the business characteristics of SDBs and 8(a) businesses we have observed from our review of contract award information obtained from the Federal Procurement Data System. Finally, I will conclude with some general comments on techniques we are developing to increase our contracting with SDBs and 8(a) concerns.

What are some of the problems we have encountered when looking at current minority contracting opportunities and challenges within DoD?

Your questions can be read to ask for more than just small business data, so I want to begin by clarifying the limits of the information we are providing. My statement will not address DoD contracting with other-than-small businesses. Federal agencies use the Federal Procurement Data System (FPDS) to report their procurement and contract award information, and SBA uses FPDS data to report on Federal agencies performance of their small business program achievements. Those reports are reasonably reliable. However, FPDS cannot produce a report with accurate information on other-than-small business concerns owned and operated by minorities.

One reason for not being able to make generalized conclusions about minority owned firms using FPDS data is that reports from FPDS are based on awarded contracts made to both publicly held and privately owned companies. Information on publicly held companies in FPDS does not include data on the diversity of their stockholder ownership or on the diversity of their management; both of these characteristics are critical

identifiers that determine whether a business is a minority business. Large privately owned business owners may not care to disclose ethnicity, as this information provides no competitive advantage to the company.

As a result, information obtained from FPDS shows that most of DoD's contracting is with firms that cannot be reliably categorized as minority or non-minority owned and operated. For example, we examined the top 100 DoD contractors and found that ethnic status is impossible to determine for most of these firms. Nearly 65 percent of DoD's contract dollars were with the top 100 companies. Large contractors account for nearly 80 percent of DoD contract dollars for FY 2009. We can't characterize these firms by their minority status from the data obtained from FPDS.

What is the difference between an 8(a) small business concern and a small disadvantaged business (SDB)?

My testimony will use two terms: 8(a) small business concern and small disadvantaged business. The terms are related but different from each other. An 8(a) small business is a subcategory of small disadvantaged business. The Small Business Administration certifies active participants in the SBA 8(a) business development program. Hence, all 8(a) small business concern are small disadvantaged businesses. However, at the same time, there are many small disadvantaged businesses that are not in the 8(a) small business development program.

At this time there are approximately 21,000 SDBs registered in the Central Contractor Registration. Approximately 8,000 of these businesses are certified by the Small Business Administration as being active in the 8(a) Business Development Program. In contrast, three out of five of all SDBs are not in the 8(a) program.

How does the 8(a) program help DoD meet it's contracting needs?

It has been more than a decade since DoD has been permitted to set aside contracts for small disadvantaged businesses or to award price evaluation preferences to SDBs. Thus, DoD relies on SBA's 8(a) Business Development Program as its primary contracting tool for encouraging DoD contract awards to small disadvantaged businesses.

How effective has it been for DoD? One way to view progress is to look at some of our numbers. Chart 1, presented below, shows that DoD is increasing its prime contracts with SDB and 8(a) small business concerns. Over the past nine fiscal years (FY), FY 2001 through FY 2009, DoD has increased its prime contract awards to small disadvantaged businesses from \$7.5 billion to \$21.7 billion as shown by the bar portion of the chart. The bars delineate a line moving to the right in an upward trend. The chart illustrates that DoD is improving and, in most instances, shows an annual increase in dollars awarded to small disadvantaged businesses for each year. We are proud of this progress, one that shows nearly a three-fold increase in awarded contract dollar over this time period.

From a different viewpoint, our percentage achievements have fluctuated over the same time period. Overall, however, our percentage has increased from 5.6 percent in 2001 to 6.9 percent in 2009 -- more than a 23 percent increase for this period. We are pleased by this positive trend, particularly the past three years where the total dollars are increasing and the percentage of awards for this group is also increasing.

Chart 1

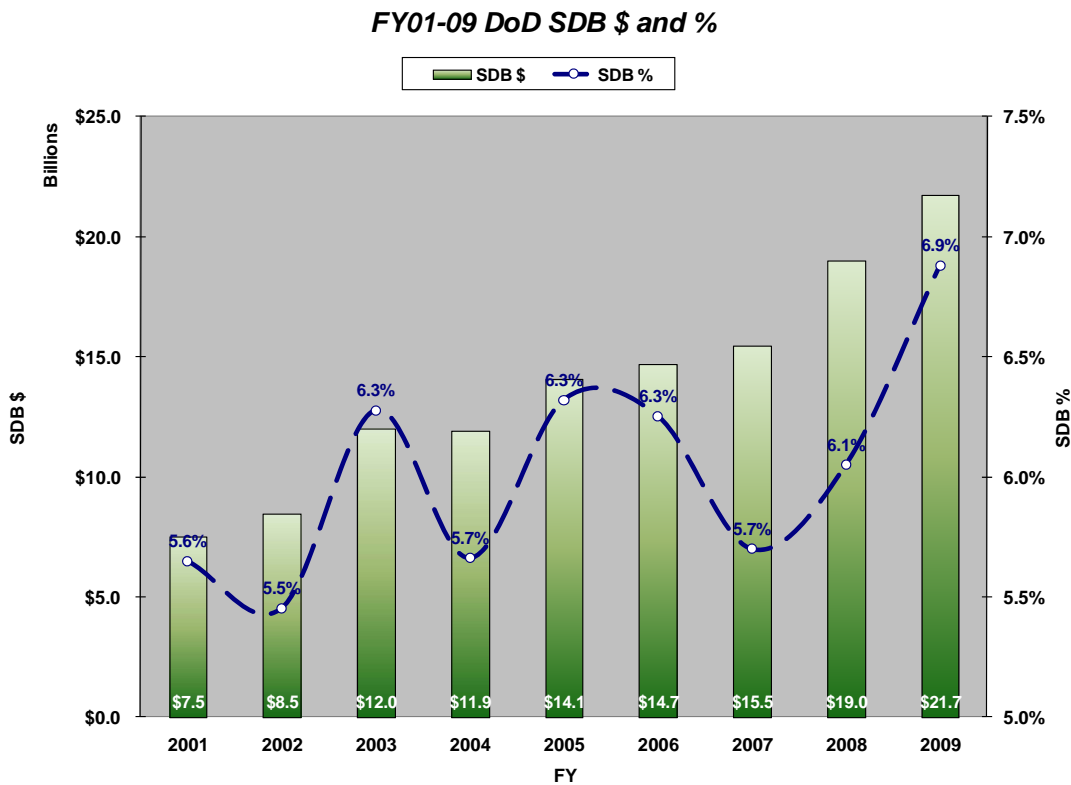


Chart 2 below provides a more detailed perspective on our work over the last three years with small disadvantaged businesses. In FY 2007, \$15.5B in total contract dollars was awarded to small disadvantaged businesses. This increased to \$21.7B in FY 2009. This upward trend represents an overall increase of about 40 percent over the three year period. The chart indicates that DoD has awarded more contract dollars to 8(a) firms than to small disadvantaged businesses that are not in the 8(a) program.

Chart 2

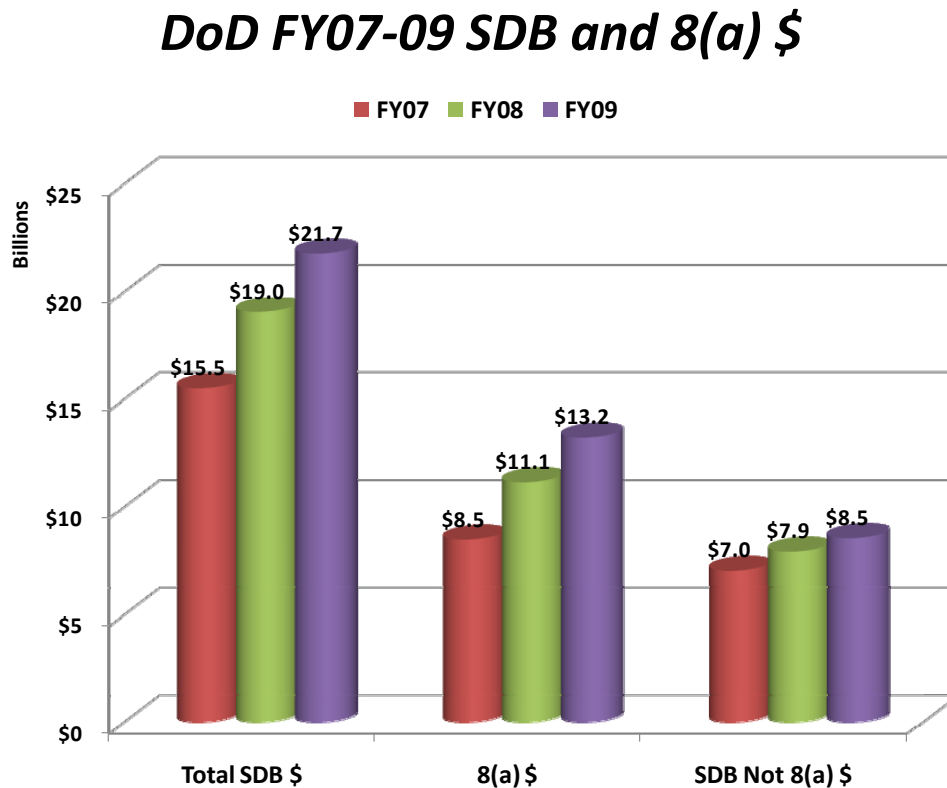


Chart 3 below provides another perspective on our work with small disadvantaged businesses including 8(a) small business concerns. The chart provides a summary of the number of SDB contractors doing business with DoD.

In FY 2007 the number of small disadvantaged businesses, including 8(a) small business concerns, that received DoD contract dollars totaled 7,000 firms. As the chart below illustrates, the number of firms has increased and shows an overall upward trend, from 7,000 firms to 8,600 firms. This represents an overall increase of more than twenty two percent over this three year period. This chart indicates that DoD does business with more small disadvantaged businesses that are not in the 8(a) program than with those that are in the program.

Chart 3

DoD FY07-09 SDB and 8(a) Contractors

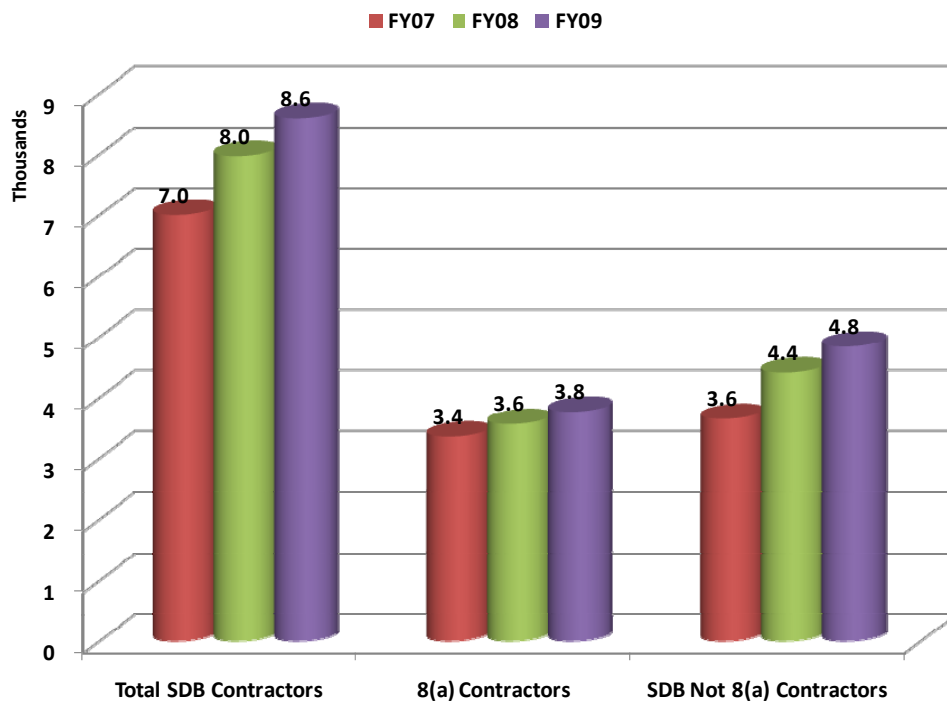


Chart 4 provides another perspective on our work with small disadvantaged businesses, including 8(a) small business concerns. In FY 2007 a total of 35,100 contract awards were made to small disadvantaged businesses including 8(a) small business concerns. As the chart below illustrates, there were 45,600 DoD contract awards made to small disadvantaged businesses in FY 2009. This represents an overall increase of about 30 percent over this three year period. This chart indicates that DoD has awarded more contracts to small disadvantaged businesses than to 8(a) firms.

Chart 4

DoD FY07-09 SDB and 8(a) Contracts

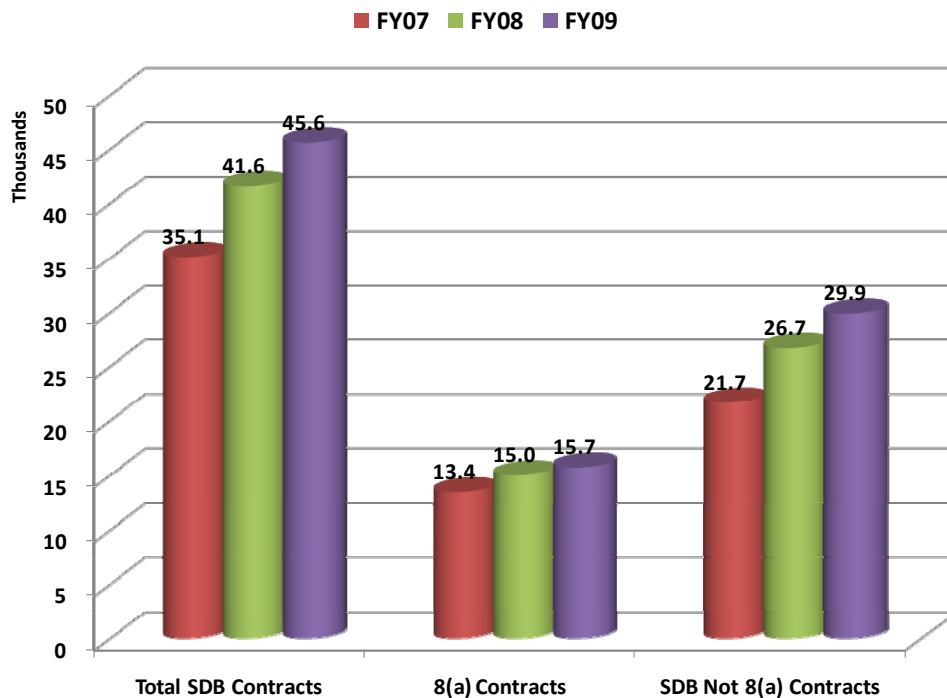


Table 1

<i>DoD Contract ARRA \$ Awarded as of 9-9-10</i>	<i>DoD ARRA SDB \$</i>	<i>% of Tot DoD ARRA \$ to SDB</i>	<i>8(a) Program \$</i>	<i>SDB Not 8(a) \$</i>
\$4,838,052,996	\$1,687,883,232	34.9%	\$1,276,382,626	\$411,500,606

Has the American Recovery and Reinvestment Act of 2009 helped SBDs?

DoD received \$7.4B in Recovery Act funds. As of September 9, 2010 about \$4.8B has been awarded to both large and small businesses in more than 4,000 contract actions. About \$2.5B in Recovery Act awards has been for work performed by small businesses. Of this amount, more than \$1.68B, over 34 percent, has been awarded to small disadvantaged businesses, as indicated in Table 1. Thus far, more than \$1.2B of DoD Recovery Act work has been awarded to 8(a) small business concerns. In order to ensure small business interests are considered, my office actively participates in the Department's Recovery Act working group that meets weekly to assess our performance in meeting the requirements of the Act.

What are some of the some of the business characteristics of small disadvantaged businesses?

Data analysis has helped us understand better the characteristics of small disadvantaged businesses. Below are some of the facts we have discovered concerning products and services DoD purchases from small disadvantaged businesses within DoD's contracting program.

In FY 2009 there were \$63B DoD contract dollars awarded to all small businesses, including small disadvantaged businesses. Of this total, approximately \$21.7 B (see Chart 2), or about 34 percent, were dollars awarded to small disadvantaged businesses. SBA 8(a) small business concerns received 20.7 percent of all DoD small business contract dollars.

The Department of Defense contract awards to small disadvantaged businesses have tended to concentrate around a relatively small group of products and services classified under the North American Industry Classification System (NAICS). The four top categories are: construction; professional, scientific & technical services; administration & support; and manufacturing. These four categories account for nearly 89 percent of all small disadvantaged business awards that were made in FY 2009 as compared to 81.9 percent for all other small businesses.

In all but one of these categories DoD awards a higher percentage of contract dollars to small disadvantaged businesses than it does to all other small businesses. Specifically, DoD awarded 24 percent of contract dollars to small disadvantaged

businesses under the NAICS code for professional, scientific & technical services. In comparison, award of 28.9 percent of contract dollars was made to all other small businesses under this NAICS code. This suggests that there may be opportunities for small disadvantaged businesses, including 8(a) small businesses, under this NAICS code.

For awards made to small disadvantaged businesses, 39 percent of contract dollars was awarded in the category of construction. In contrast, for all other small businesses 11.7 percent of the dollars were awarded under this NAICS code. For awards made to small disadvantaged businesses in the administration and support NAICS category, 11 percent of contract dollars were awarded to small disadvantaged businesses. This compares to 4.3 percent of total DoD contract dollars that were awarded to all other small businesses.

We believe these facts imply good use of small disadvantaged businesses in the NAICS classes where DoD buys what these firms offer. We hope that further analysis will help us better understand the small disadvantaged businesses that want to do business with us so that we can continue to improve our contracting accomplishments.

Conclusion

The FPDS data does not provide accurate information on all minority-owned businesses, but it does yield lessons about small disadvantaged business in that small disadvantaged businesses are usually owned by minorities. The DoD has continued to increase its contract awards to small disadvantaged businesses since 2001. DoD has demonstrated that it can continue to increase opportunities for these businesses in the future. Small disadvantaged businesses are, and will continue to be, an important part of DoD's small business programs. I believe that we are gaining insights that will help us develop mechanisms that will, in turn, allow us to make even greater use of small disadvantaged businesses in our contracting programs.

Madam Chairman, I thank you and the members of the Subcommittee for your interest in our efforts. I would be pleased to address your questions.