Practitioner Perspectives

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10 Ideas to Restore SBSA Sanity

1. ***Express all SB size thresholds in terms of gross revenue, not employee counts***
2. ***Specify all SB subcontracting goals as a % of total contract dollars, not of subcontracted dollars***
3. ***Permit graduated primes to recompete for their existing work***
4. ***Rationalize the 1100+ NAICS code-based size standards***
5. ***Eliminate exemptions to size standards for preferred heritages or ethnicities***
6. ***Abandon or enforce the economically disadvantaged requirement – with increased scrutiny of related parties and affiliation***
7. ***Evaluate bidders' SB utilization track records – not just a given Subcontracting Plan in a vacuum***
8. ***Introduce real consequences for primes who fall short of SB goals (liquidated damages, etc.)***
9. ***Create a streamlined process to hear size standard protests***
10. ***Limit SBSAs to contracts where the annual value is no more than 25% of the stipulated size standard***

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Setting Aside Small Business Set-Asides

- SBs are often victims of their own success, graduating without off-ramps or transition plans and with suboptimal enterprise value
- While well-intentioned, the current SBSA practices are antithetical to Government and taxpayer best interests
- Blind pursuit of SB contracting goals has resulted in greater cost and unnecessary program execution risk to the Government
- Abuse is rampant, with examples of manipulated financials and divestitures to related parties to game current size standards
- Existing enforcement and contracting methods are inadequate to ensure compliance or to deliver on the policy promise of SBSA programs
- Industry, program and procurement offices, OFPP, and the SBA need to work together to restore Pareto optimal contracting practices

What's Going On

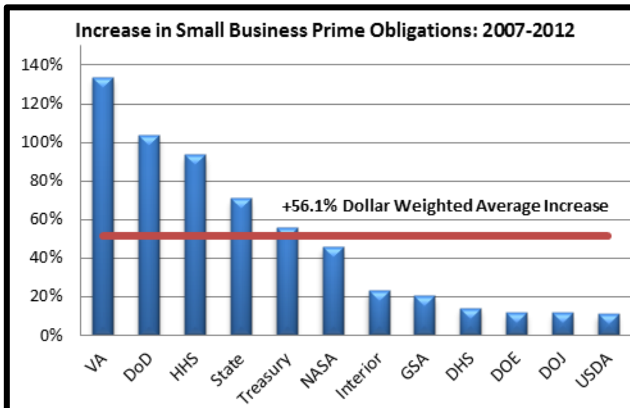
Small business set-asides (SBSAs) are no longer limited to small procurements. Every day, large complex programs (most currently managed and executed by large businesses) are "going SBSA." The new rationale: meet small business (SB) quotas without regard to mission impacts. It is now common for these $50-150M programs to go SBSA, with the new small business primes understandably subcontracting with large businesses to do the heavy lifting. This results in layered costs, lack of transparency, and performance risks that are antithetical to Government and taxpayer interests.

Victims of Their Own Success

In many ways, the Government's SB programs make it the world's largest incubator of startups. Despite the perceived social good derived from these programs, these same policies create a sheltered environment of limited competition and, in many cases, outsized company profits. Successful companies are eventually thrown out of the nest when they exceed some arbitrary revenue size, with few formal transition plans. With the advent of the 2007 recertification rules, these SBs are often left to decline, shunned by buyers who know the work will not survive a transaction.

Layer Cake

A potential consequence of going SBSA is an increase in cost. Adding a SB between the incumbent contractor and the Government introduces additional costs for no guaranteed improvement. When large businesses subcontract, they adopt fee arrangements that often result in higher profit margins for the large business and a fee on fee payment for the Government.



NOTE: This represents increases in total small business prime obligations for information technology and professional services. This has outpaced total obligations (large and small) by 25.8% over the same period.

Data Sources: FPDS.gov, USASpending.gov, SBA.gov, and GovWinIQ

Super-Size Smalls

The set-aside movement is not limited to SB. Special preferences granted to Alaskan Native Corporations enable such companies to qualify as small disadvantaged businesses regardless of their size. This preference applies to procurements as well as SB quotas. Many of these are nine and ten-figure businesses in the lower 48, with daily operations managed by non-Alaskans.

Risky Business

The blind application of SBSAs places social policy goals ahead of mission objectives. Replacing well-performing large businesses on complex efforts with neophyte small businesses introduces needless program execution risks. Staff turnover and uneven program management capabilities are wreaking havoc on many sensitive programs. The Department of Veterans Affairs has had several noteworthy performance hiccups as a result of awarding nine-figure procurements to <$25M revenue businesses, and with the current "small only" posture coming from their small business office, the Department of State may follow in their footsteps.

Where Do We Go From Here?

Promoting SB is a noble goal, but the pendulum has swung too far in favor of SBSAs. The solution is wholesale procurement reform that restores a balance between maximizing competition and promoting SB utilization. Reasonable people can disagree on whether Government should favor companies based on the gender, ethnicity, and socioeconomic status of a company's principal owner, but few can deny that SBSAs are increasingly displacing well-performing large businesses. There is no reason to sacrifice competition, potential cost reduction, and risk minimization – or penalize good performers – in the name of arbitrary SBSA policy.