Examining Costs and Benefits of the U.S. Small Business Administration's 8 (a) Program

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TRELLANY V. THOMAS-EVANS

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Trellany V. Thomas-Evans

Approved by:

Chair: Conrad Francis, D.B.A. 2/1/2012
Date

Member, Shirley E. Johnson, Ph.D.

Member: Donny Bagwell, Ph.D.

Certified by:

School Dean: Arthur Lee Smith, Ph.D. 2/16/2012
Date

Abstract

To ensure small businesses are able to compete in the federal marketplace, the Small Business Administration (SBA) develops programs that provide business, technical, and financial assistance to small business owners. The SBA's 8 (a) program is one such program for small business owners meeting the federal government's definition of being socially and economically disadvantaged. The problem addressed in this study is, without an understanding of the efficiency and productivity of the 8 (a) program, both overall and for various gender and ethnic groups, decisions about sustaining program funding are difficult to make. A quantitative nonexperimental research design was used based on data from the SBA's annual reports to Congress. The data included 8 (a) program's costs, the percentage of firms exiting the program as independently operational, and the number of firms exiting the program as independently operational. The percentage of firms exiting the 8 (a) program as independently operational firms (program efficiency) and the number of firms exiting the program as independently operational firms (program productivity) are important to examine because each provides a distinct basis upon which to evaluate the program. Pearson correlations, logistic regression, and two-factor analyses of variance were used. A power analysis indicated that 269 participants would be required to achieve power of .80. The results were that Black participants were less likely to receive government contracts, $B = -.43$, $p < .001$, $\text{Exp}(B) = .65$, and had a lower average dollar value of government contracts received than Caucasian participants, $F(3, 2{,}981) = 4.64$, $p = .003$. It was concluded that despite increasing costs of the 8 (a) program, not all 8 (a) firms are benefitting from its resources and federal contracting incentives, calling into question whether the 8 (a) program is achieving its mission. It was recommended that future researchers examine program terminations due to failure to comply with program rules and conflicting data in SBA reports on the 8 (a) program. Administrators of the 8 (a) program should explore reasons why 8 (a) businesses owned by Black entrepreneurs, and Black females, in particular, are not receiving contracts at rates comparable to other business owners.

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Chapter 1: Introduction

The majority of businesses in the United States (U.S.) are small businesses (Anderson, 2009). According to Headd and Kirchoff (2009), approximately 99% of businesses in the U.S. meet the federal government's definition of a small business. Small businesses are important to economic development and over the past 20 years, U.S. Small Business Administration (SBA) administrators have focused on increasing the viability and sustainability of those businesses (Servon, Fairlie, Rastello, & Seeley, 2010). Between 1993 and 2008, small businesses represented 68% of net new jobs created in the U.S. (SBA, 2008a). Small businesses are an important element of the U.S. economy because they account for approximately half of the private sector's output and routinely generate 60% to 80% of all net new jobs created annually (Mach & Wolken, 2006). Small business owners are able to create a large number of new jobs because they are able to innovate and identify new niches and unlike large businesses that are more cautious, small business entrepreneurs are more willing to take risks (Clark, Moutray, & Saade, 2006). Cardin (2007) suggested that the federal government has a responsibility in fostering and promoting a business climate that supports the small business sector because of the number of jobs created through small businesses.

Small businesses are an asset not only to the U.S. economy but also to the global economy (Edwards, 2008). The small business sector represents a statistically significant portion of the global economy (Morrison, Breen, & Shameen, 2003). Clark et al. (2006) noted that the Bologna Charter on Small and Medium Sized Enterprise Policies, which was adopted by more than 45 countries on June 15, 2000, acknowledges the importance of small businesses to a country's economic growth, job creation, and social cohesion (see Appendix A for the Bologna Charter on Small and Medium Sized Enterprise Policies). According to Headd (2010), the loss of over 7 million net jobs in the U.S. from December 2007 to December 2009 emphasizes the importance of understanding how jobs are created because that information is vital to this nation's economic recovery efforts.

The importance of small businesses to the U.S. economy led the U.S. Congress to enact legislation that created the Small Business Administration (SBA) on July 30, 1953. SBA administrators, managers, and other personnel are tasked with aiding, counseling, assisting small business owners and with protecting interests of the nation's small business sector (SBA, 2009d). In pursuit of its mission and goals, the SBA administers several programs designed to increase the number and the viability of small businesses in general and of historically disadvantaged small businesses in particular (e.g., female-owned and minority-owned businesses). One such program, the 8 (a) business development program, hereafter referred to as 8 (a), is the SBA's oldest and most controversial small business development initiative and is the focal point of this exploratory study.

A definition of terms used by the SBA and other federal agencies to administer the 8 (a) program is also included. Previous studies conducted on the 8 (a) program by researchers focused on a range of elements, including demographics of owners of participating firms, types of businesses, and individual elements of the program such as financial assistance and training components. This study examined costs and benefits of the 8 (a) program, characteristics of 8 (a) businesses that have been determined to be successful and unsuccessful and possible reasons for successes and failures.

Background

Since its inception on July 30, 1953, the SBA has been the leading federal advocacy agency for small businesses in the United States (SBA, 2009d). Ensuring that small businesses are able to fulfill their role in sustaining the economy is an inherent part of the SBA's and the 8 (a) program's missions and goals. However, nearly 50 years after the SBA was created, former President George W. Bush contended that, despite significant progress made by SBA administrators in assisting small businesses, far too many small business owners are still experiencing formidable challenges when conducting business in the federal procurement marketplace (Townes, 2008). Throughout his term, former President George W. Bush asserted small businesses are of vital importance to the American economy because they could be the path to success for many Americans. Moreover, President Bush posited that small business owners embody American values of hard work, risk-taking, and independence and that government contracting must be more open and fairer to small business owners (Townes, 2008).

Through a number of business development mechanisms, such as technical assistance, mentor-protégé partnerships, loan guarantees, and set-aside contracting, administrators of the 8 (a) program attempt to help small business owners compete in the federal procurement marketplace and to develop skills and networks needed for their business' long-term viability (SBA, 2009a). However, according to the U.S. Government Accounting Office (2008), the SBA's administration of the 8 (a) program is challenged by multiple factors, including a lack of understanding on the part of some participants regarding the purpose and requirements of the 8 (a) program, the SBA staff's diminished ability to conduct business development activities, an inefficient process to terminate firms, and a lack of routine surveillance and accountability reviews specific to the program (SBA, 2009b).

Additionally, the U.S. Government Accountability Office's (GAO) researchers found, despite SBA policy makers and administrators having controls in place to determine if a firm's owners are eligible for entry into the 8 (a) program, many small business owners enter the program with unrealistic expectations and do not fully understand the 8 (a) program's requirements. This is because small business owners are not required to attend information sessions or complete assessments designed to evaluate their eligibility (U.S. GAO, 2008). Moreover, the U.S. GAO suggest that, while the SBA emphasizes the requirement of completing annual reviews of all 8 (a) firms, the agency's policies and practices lack an efficient termination process for removing noncompliant firms from the 8 (a) program. Noncompliant firms are firms whose owners neglect to submit their annual business reports, neglect to submit annual business and personal financial statements, neglect to update ownership information, become delinquent in business and personal taxes, focus exclusively on winning set-aside contracts instead of expanding to non-federal marketplaces, and compensate consultants without notifying the SBA.

Programs similar to the SBA's 8 (a) program have been evaluated empirically to determine effectiveness and efficiency. A micro business development program funded at the state level in Vermont was examined to identify factors that contributed to the program's success (Kolodinsky & Schmidt, 2007). Several factors were examined, including clients' characteristics such as gender, marital status, education, age, personal financial assets, previous business experience, business characteristics such as access to capital, and program activities such as completing required business development courses. Kolodinsky and Schmidt concluded, while a business owner's gender was unrelated to the success of a business, the most successful small businesses were those for which the owner had prior business experience, was young, well educated, had access to capital, and had completed business development courses.

According to Schmidt, Kolodinsky, Flint, and Whitney (2006), empirical studies of the effectiveness of business development programs have produced mixed results in terms of assisting disadvantaged Americans (e.g., females and members of minority ethnic groups). Schmidt et al. concluded that programs such as Vermont's Micro Business Development Program could assist clients in starting their business, creating jobs, and accessing needed business capital. Moreover, Schmidt et al. concluded, for members of minority ethnic groups, programs that help clients start and grow successful businesses could decrease reliance on other government assistance programs such as welfare. Porter (2010) suggested that small businesses are often located in areas considered economically disadvantaged and often hire employees from those areas. According to Headd (2010), small businesses fill niches in the labor market that are underserved and compared to large business, employ a higher percentage of individuals with low educational attainment, high school aged workers, disabled workers, rural workers, and workers age 65 or older. Schmidt et al.'s conclusion aligns with Porter's (2010) position regarding the importance of small business ownership in weaning individuals off government assistance programs. While neither the 8 (a) program nor the Vermont Micro Business Development Program are classified as social welfare programs, they could help reduce the number of individuals dependent upon such programs. Many small businesses in the 8 (a) program are referred to as micro businesses or micro enterprises because they have less than five employees and generally lack access to commercial funding (Wallace, 2000). Edgcombe & Klein (2005) suggested that small business ownership can lead to financial wealth and other growth opportunities for groups that have difficulty in the commercial credit market, are low income, or face challenges in the labor market due to gender, ethnic or racial status, or factors. According to Wayman (2010), the majority of micro business owners are female (59%) or come from traditionally disadvantaged backgrounds (20%) and prior to participating in a business development program, had incomes at or below their geographic areas' median income. However, within five years of receiving business development assistance, median income increased by $30,000 (Wayman, 2010).

A longitudinal study conducted by Sonfield (2007) examined the success of minority-owned businesses compared to the success of majority-owned business (i.e., Caucasian-owned). According to Sonfield, majority-owned businesses have a 10-year success rate of 72.6%, compared to only 61.0% for businesses owned by African Americans. Hispanic-owned businesses (68.6%) and Native American-owned businesses (67.0%) succeeded at slightly higher rates than those owned by African Americans, but were still below the success rate of majority-owned businesses. Hocker (2005) concluded that, when compared to Caucasians, African Americans and other minority groups were more likely to start a small business. Lower business success rate for non-Caucasian firms are typically attributed to difficulties those firms owners face in accessing capital in the commercial marketplace. However, Shah and Ram (2006) stated government-run business development programs that focus on assisting minority groups could be successful. In a qualitative case study of small business suppliers to large corporations, Shah and Ram concluded that individuals at large corporations routinely took business development program status into account when awarding contracts (e.g., whether or not the small business' owner participated in a formal business development program).

Critics of the SBA suggest that the agency does not provide the level of help needed by most disadvantaged small business owners (Craig, Jackson, & Thomson, 2009). According to the SBA's Office of Advocacy's *2009 Report to the President*, in fiscal year 2008, small business owners created most of the nation's new jobs, employed approximately half of the nation's private sector workforce, and provided half of the nation's nonfarm, private gross domestic product (GDP). However, during that same period and along with the rest of the U.S. economy, the SBA's Office of Advocacy (2009) found that small business owners faced a deepening recession and their enterprises accounted for over half of the 763,000 jobs lost during the first two quarters of 2008. Additionally, according the same report, in fiscal year 2008, unincorporated self-employment dropped from a prior year's average of 10.4 million to 9.6 million. According to the SBA (2009b), 8 (a) businesses contribute significant numbers to the country's employment rolls, as reflected in Table 1.

Table 1

Jobs Created by 8 (a) Firms Exiting the Program

Fiscal year	Number of firms completing the 8 (a) program	Number of employees
2009	1,469	50,078
2008	1,166	49,302
2007	1,412	46,528
2006	1,404	56,202
2005	1,764	34,889
2004	1,707	23,865
2003	1,473	14,102
2002	1,093	8,914
2001	1,077	34,928
2000	1,479	63,271
1999	1,354	74,792

Through their flexibility and ability to generate innovative solutions, new industries, and new jobs, small businesses will be instrumental in the U.S.'s economic recovery efforts (Clark et al., 2006). According to firm size data collected from the U.S. Census Bureau, during economic downturns, small businesses owners routinely play a leading role in economic recovery and the SBA's goal is to bridge competitive opportunity gaps that small business entrepreneurs often face (SBA, 2007). While President Obama has referred to America's small businesses as the heart of the American economy, the heart of the American dream, and the core of America's story (Obama, 2009), perhaps former President George W. Bush best summed up the significant role of the nation's small businesses in stating that the ability of the U. S. economy to rebound is not dependent on how well the nation's largest companies fare but on the strength and resilience of its small business sector (Feller, 2009).

Problem Statement

The problem addressed in this study is, without an understanding of the efficiency and productivity of the 8 (a) Business Development Program, both overall and for various gender and ethnic groups, decisions about sustaining 8 (a) program funding are difficult to make. The current state of the U.S. economy is forcing the U.S. Congress to reduce or eliminate spending for a broad range of social programs. The Office of Management and Budget (OMB, 2010) stated that empirical evidence is essential in assessing whether a government program is achieving intended outcomes. The OMB uses this empirical evidence to provide agencies with justifications to invest more in programs that are working and less in those that are not working. Running the government in an efficient way requires attention to the balance of benefits and costs for social programs (OMB, 2010). Results from this study could be used to address a lack of empirical evidence regarding costs and benefits of the 8 (a) program.

Despite the growing number of 8 (a) participants, the SBA has reduced its annual funding request for the 8 (a) program (Cardin, 2007). Because of the perceived importance of small businesses in job creation and innovation, cutting the 8 (a) program's budget could have a negative impact on the small business sector as well as the U.S. economic recovery efforts. As the 8 (a) program has grown over the years, associated costs have increased. However, whether increasing costs have lead to increased efficiency and productivity is unknown. In addition, the extent to which the 8 (a) program's administrators provide differential assistance to males and females and to individuals of various ethnic groups is unknown. Without an understanding of the overall efficiency and productivity of the 8 (a) program or the equity related to gender or ethnicity, decisions about sustaining program funding are difficult to make.

Purpose

The purpose of this nonexperimental quantitative study was to examine program outcomes as they relate to the cost of administering the 8 (a) program. The population of interest in this study consisted of firms involved in the 8 (a) program in the 50 United States. The predictor variables in this study are program costs, gender, and ethnicity. The criterion variables in this study are the percentage of participating firms exiting the program as independently operational firms, the number of firms exiting the program as independently operational firms, whether or not a firm received government contracts, and the dollar value of government contracts awarded to 8 (a) firms. As reflected in Table 2 (adapted from SBA, 2010c), as of fiscal year 2009 (the most recent 8 (a) annual report available), there were 8,827 firms participation in the 8 (a) program and participants were representative of both genders as well as all ethnic groups, although a large number of participants did not designate an ethnic group identity (3.2%). These ethnically unidentified individuals were included in the study as members of the "other" ethnic group. A statistical power analysis was conducted and indicated that 269 participants would be required to achieve power of .80 for all statistical tests in this study. The actual sample sizes for the inferential tests ranged from 2,989 to 8,446.

Table 2

Demographics of 8 (a) Program Participants at the End of Fiscal Year 2009

Demographic	Number	Percentage
Race		
Asian Pacific Americans	1,154	13.1
Black Americans	3,142	35.6
Caucasian Americans	628	7.1
Hispanic Americans	1,967	22.3
Native Americans	633	7.2
Native Hawaiian American	14	0.2
Subcontinent Asian Americans	762	8.6
Other Americans (No description provided by SBA)	285	3.2
Gender		
Men	5,305	60.1
Women	3,222	36.5
Did not report a specific gender	300	3.4

Research Questions

There are four research questions in this study. Research questions were designed to address the relationships between the costs and the efficiency of the 8 (a) program, the relationship between the costs of the 8 (a) program and its overall productivity, and the equity of benefits from the 8 (a) program across gender and race. Program efficiency is defined as the percentage of firms exiting the program that are independently operational firms, while program productivity is defined as the raw number of firms that exit the 8 (a) program as independently operational firms. It was important to examine both of these aspects because the raw number of firms could become inflated due simply to the expansion of the program, even if the quality of the program and quality of the assistance provided through it have declined. Thus, examining both how well the program delivers services to member companies (i.e., efficiency) and the total impact of the program in terms of how many firms successfully complete it (i.e., productivity) are important to consider.

Q1. What is the relationship, if any, between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms?

Q2. What is the relationship, if any, between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms?

Q3. What is the difference, if any, between male and female participants' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

Q4. What is the difference, if any, between various ethnic groups' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

Hypotheses

The four null and alternative hypotheses in this study correspond to the four research questions:

$H1_0$. There is no statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

$H1_a$. There is a statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

$H2_0$. There is no statistically significant relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

$H2_a$. There is a statistically significant relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

$H3_0$. There is no statistically significant difference based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

$H3_a$. There is a statistically significant differences based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

$H4_0$. There is no statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

$H4_a$. There is a statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

Nature of the Study

The Business Opportunity Development Reform Act of 1988 [15 U.S.C. 636(j)16(A) and (B)] and Section 7(j)(16)(A) of the Small Business Act require the SBA to provide the U.S. Congress with annual reports that detail the status of current and former 8 (a) program participants and program achievements and challenges. Each annual report contains data and information highlighting the program's benefits to the economy and to government as well as administrative, managerial, and technical costs. Data and information from annual reports for fiscal year 1999 through fiscal year 2009 were used to answer research questions for this study. Each annual report contains a wealth of relevant data and information, including the personal net worth of participants; total program cost and perceived associated benefits; and, the number and percentage of firms exiting the program because of involuntary termination, voluntary withdrawal, and graduating. That data was used to address the first two research questions. A sample of this data is provided in Table 3 (adapted from SBA annual reports for fiscal years 1999 through 2009). Each annual report also contains information on a participant-by-participant basis regarding gender and ethnicity of each small business owner and that information was used to address the third and fourth research questions.

Table 3

Annual Cost of the 8 (a) Program

Fiscal year	Program administration	Managerial and technical assistance
1999	24,394,483	2,600,000
2000	20,794,483	3,600,000
2001	21,229,247	3,241,000
2002	40,847,000	4,365,000
2003	33,374,463	2,803,366
2004	34,944,546	4,625,909
2005	31,387,010	3,115,886
2006	29,581,967	2,289,000
2007	41,200,000	3,340,000
2008	51,800,000	4,761,000
2009	52,500,000	4,880,000

Significance of the Study

This study is significant because of the importance of small businesses to the vitality of the U.S. economy. Bailey, Dynan, and Elliot (2010) asserted small businesses have historically been the most powerful generators of new jobs in the United States and greater attention should be focused on policies that affect small businesses. This study is also significant because the 8 (a) program is the primary vehicle through which owners of small disadvantaged businesses enter and learn how to navigate the federal marketplace (Newell, 2008).

Understanding how gender and ethnicity relate to 8 (a) program participation is useful for determining how well the program is meeting its goals. Additionally, despite the business development training component of the 8 (a) program, participants' primary motivation for seeking 8 (a) status is the opportunity to receive set-aside government contracts (SBA, 2009c). The SBA's Office of Inspector General (2007) found several major challenges persisting in the 8 (a) program, including the need to enhance business development processes, the need to objectively define eligibility standards, the need to upgrade training and information systems, the need to improve graduation requirements and procedures, and the need to enforce better oversight of contractors' compliance with the 8 (a) program's regulations. Results from this study might assist in addressing those challenges. The perception that the 8 (a) program's costs outweigh its benefits, coupled with a wide range of problems that persists despite repeated efforts to resolve them, puts the program at risk of significant funding cuts that could have a profound impact on how program leaders pursue the mission and goals and the types and depths of services the program's administrators could provide small businesses.

Definitions

The following terms and acronyms are routinely used by the SBA and other researchers of the SBA and its programs to describe and discuss the agency's small business programs, policies, and initiatives.

7(a) loan program. The 7(a) loan program is considered the SBA's primary and most flexible loan program and offers guaranteed financing for small startup and existing small businesses for practically any business purpose (SBA, 2010a). According to the SBA, the goal of the 7(a) loan program is to help new and existing small businesses obtain financing in cases where they may not be eligible for traditional loans. The name of the 7(a) loan program comes from Section 7(a) of the Small Business Act that authorizes the SBA to provide business loans to the country's small business sector (SBA, 2010a). Most small businesses aided by the 7(a) loan program are owned by women, veterans, and minorities and are located in rural areas or in special zones determined by federal legislation to be in special need of economic development aid (Rossman, Theodos, Brash, Gallagher, Hayes, & Temkin, 2008). In 2004, as the federal government sought to eliminate funding for a wide range of social programs, lawmakers cut off funding for the 7(a) loan program and since that time the program has been funded by increased fees paid by participating businesses and lenders (Jones, 2006).

7(j) program. Through the 7(j) program, SBA administrators provide business development assistance opportunities for businesses owned by individuals determined by the SBA to be socially and economically disadvantaged. Under the Small Business Act of 1953, the SBA enters into cooperative agreements, contracts, and grants with service providers (i.e., nongovernment business consulting firms) deemed capable of providing business assistance to socially and economically disadvantaged firms (Catalog of Federal Domestic Assistance, 2009). The 7(j) program's providers are required to help with business accounting; marketing; preparation of business proposals and bids; training in how to start, operate, and expand a business; and, industry-specific technical assistance (SBA, 2009d). Services provided by 7(j) contractors are available, in many cases, free of charge by local libraries, colleges and universities, and nonprofit organizations. In fiscal year 2005, as former President George W. Bush sought to control federal government spending by seeking out programs deemed inefficient, ineffective, and redundant, the 7(j) program was one of several small business programs the former president proposed to be terminated (Jones, 2006). Understanding how the 7(j) program operates is important because it constitutes one of the key cost areas in all SBA annual reports to the U.S. Congress regarding the costs, benefits, achievements, and challenges of the 8 (a) program.

8 (a) Business Development Program. Under Sections 7(j) and 8 (a) of the Small Business Act [(15 U.S.C. §§ 636(j) and 637(a)], the SBA was authorized to establish a business development program currently known as the 8 (a) Business Development program. The 8 (a) program's mission is to promote the development of small businesses owned and controlled by socially and economically disadvantaged individuals so that such concerns can compete in the mainstream of U.S. economy [(15 U.S.C. § 631(f)(2)]. SBA administrators promote small business development by providing a range of management, technical, financial, and procurement assistance to 8 (a) eligible small business owners (U.S. Department of the Interior, 2009).

8 (a) firm. A firm certified by the SBA as being owned and operated by socially and economically disadvantaged individuals and therefore eligible to receive set-aside federal contracts as well as comprehensive business development and technical assistance (SBA, 2009a). The 8 (a) program is the most widely known preferential program and allows the federal government and its prime contractors to make contract awards to certified 8 (a) firms on a noncompetitive basis of up to $3 million for manufactured goods and up to $5 million for construction contracts (Hernandez, 2007). The 8 (a) program is considered preferential and is controversial because, to participate in the program, business owners must meet the federal government's definition of being socially and economically disadvantaged.

Business failure. The SBA defines business failure as the involuntary closure of a business that results in loss to at least one creditor. Lack of sufficient capital and the failure to carefully plan for business are two of the main reasons cited for business failures. Ou and Williams (2009) noted that access to credit is vital for small business startups, expansions, and survival and that lenders have an important role in providing capital to owners of small businesses because many small disadvantaged business owners are not in a position to access funds from equity capital or publicly traded markets. Additionally, many business analysts believe in the necessity of a business plan and assert that the most important step in starting or expanding a business and attracting capital is the development and routine updating of a business plan (Ashamalla, Orife, & Abel, 2008). Business planning is a component of the 8 (a) program's managerial and technical assistance services and comprises a significant portion of the costs associated with administering the 8 (a) program.

Certified 8 (a) firm. A firm owned and operated by socially and economically disadvantaged individuals and eligible to receive federal contracts under the SBA's 8 (a) Business Development Program (SBA, 2009a). According to the SBA's fiscal year 2008 report to the U.S. Congress, there were 9,462 certified firms and while the report asserted that those firms made significant contributions to federal, state, and local tax bases and contributed an estimated 191,973 jobs to the U.S. economy, the figures are questionable because the latest annual report also noted that data were available for only 1,093 certified 8 (a) firms (SBA, 2008a).

Economically disadvantaged. According to the Part 124.104, §13 of the Code of Federal Regulations (C.F.R.), economically disadvantaged individuals are individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities compared to others in the same or similar business who are not considered socially disadvantaged (Who is economically disadvantaged, 2006). However, economically disadvantaged status is determined on a case-by-case basis. Business ownership is often promoted as a means of creating wealth and stimulating economic growth (Young, 2009). However, to be deemed economically disadvantaged, excluding a business owner's equity in the firm and equity in her or his personal residence, net worth must be less than $250,000 when accepted into the 8 (a) program and must not exceed $750,000 while progressing through the 8 (a) program (SBA, 2008b).

Federal Procurement Data System-Next Generation (FPDS-NG). The federal government spends approximately $300 billion annually on goods and services and FPDS-NG is the only government-wide system for obtaining information on how those funds are spent (U.S. GAO, 2005). The SBA uses the FPDS-NG to prepare its annual small business reports that are used to evaluate the performance of federal agencies in achieving their small business and socioeconomic procurement preference goals (U.S. GAO, 2008). According to the Executive Office of the President's OMB, the FPDS is an authoritative source that allows managers of federal agencies, contractors, and policy makers to make informed business decisions (Denett, 2007).

Graduate. A term used to refer to 8 (a) firms that exited the program after successfully completing the developmental stage and the transitional phase (SBA, 2008b). A firm may withdraw from the 8 (a) program at any time or the SBA may decide to graduate a firm early if the SBA determines that the firm successfully and substantially completed established targets, objectives, and goals in its business plan and demonstrated the ability to compete in the marketplace without 8 (a) program assistance or no longer meets the criteria for being economically disadvantaged (U.S. GAO, 2008).

Micro business. Micro-businesses are businesses operating with no more than five employees and grossing no more than $500,000 in annual sales (Wallace, 2000).

Nonemployer business. The U.S. Census Bureau defines a nonemployer business as one that has no paid employees, annual business receipts of $1,000, or $1 or more for construction industries, and is subject to federal income taxes. Additionally, most nonemployer firms are owned by self-employed individuals operating as very small unincorporated businesses that might or might not serve as the owner's principal source of income (U.S. Census Bureau, 2010). The latest U.S. Census Bureau data also reflected that, in 2007, a million new nonemployer businesses were reported, with those businesses generating 7% of U.S. gross domestic product and with most classifying themselves as sole proprietorships (Tozzi, 2009).

Program year. A 12-month period of an 8 (a) participant's program. The first program year begins on the date that the concern is certified to participate in the 8 (a) program and ends 1 year later and each subsequent program year begins on the certification anniversary of the business (SBA, 2008b).

Set aside. Contracts reserved exclusively for small businesses meeting specific criteria, such as an 8 (a) certified firms.

Small business. To determine whether a business is small, the SBA examines the number of employees, its annual receipts, and its business assets. For research purposes, the SBA's Office of Advocacy defines a small business as an independent business having less than 500 employees (SBA, 2008b).

Socially disadvantaged. The federal government defined socially disadvantaged individuals as individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as members of a specific group (SBA, 2008b). According to the SBA, a business owner's social disadvantage must stem from circumstances beyond the individual's control. Additionally, per the SBA's eligibility documents, and absent evidence to the contrary, African Americans, Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and Subcontinent Asian Americans are presumed to be socially disadvantaged.

Sole proprietorship. An unincorporated business owned by one individual (U.S. Census Bureau, 2010). Sole proprietorships are the most common, the simplest to form and dissolve, and the oldest business structure (Mauro, 2010). Sole proprietors receive all income generated by their business and profits and losses flow directly to the owner's income tax return (SBA, 2010a).

Termination. A firm removed from the 8 (a) program prior to the graduation date set at its initiation into the program (SBA, 2009a). A firm may opt to withdraw from the 8 (a) program for any reason or the SBA can terminate a firm from the program for deficiencies such as the firm having a history of not providing required documentations in a timely manner (U.S. GAO, 2010). After a firm is terminated from the 8 (a) program, it can be difficult to track the firm's business progress as evidenced through nonresponse survey rates in research studies and the SBA's annual reports to the U.S. Congress.

Summary

Chapter 1 contained an overview of the research topic and reasons why the 8 (a) program warrants additional study. This nonexperimental quantitative study is significant because of the importance of small businesses to the vitality of the U.S. economy. The current state of the U.S. economy is forcing the U.S. Congress to reduce or eliminate spending for a broad range of social programs. The purpose of this study was to examine program outcomes as they relate to costs of administering the 8 (a) program while the problem addressed is, without an understanding of the efficiency and productivity of the 8 (a) program, both overall and for various gender and ethnic groups, decisions about sustaining program funding are difficult to make. The Office of Management and Budget (OMB, 2010) asserted that empirical evidence is essential in assessing whether a government program is achieving intended outcomes and uses empirical evidence to provide agencies with justifications to invest more in programs that are working and less in those that are not working. Chapter 2 will include a review of articles and research that focused on the 8 (a) program and similar programs and methodologies used to conduct those studies. To gain a better understanding of the importance of the SBA and the 8 (a) program, the literature review also includes historical information on the agency and on the program.

Chapter 2: Literature Review

The purpose of this quantitative study is to examine program outcomes as they relate to the costs of administering the 8 (a) program. While studies of the Small Business Administration (SBA) and its programs are available, few of those studies have examined the impact the agency's 8 (a) program is having on its constituency, redundancy of its efforts, or its costs and benefits. Being able to measure the impact of the 8 (a) program is crucial in this time of economic turmoil when the small business sector continues to be heralded as the economic engine that drives the nation's prosperity. To understand the influence of the SBA on the development and vitality small businesses, it is important not only to examine its mission and its business development programs but also to explore its history, accomplishments, and challenges. As such, the following literature review explores the history of the SBA and the 8 (a) program and examines reported costs and benefits to taxpayers and program participants.

A review of literature on the SBA's 8 (a) program reflected that the overwhelming percentage of studies conducted have been conducted internally by governmental organizations, conducted by individuals or companies contracted by the SBA, or are brief articles written by individuals who are either strongly against or strongly in favor of the SBA and its 8 (a) program. While the focus of some dissertations has been the 8 (a) program or other SBA programs, those studies are more than 5 years old. For example, the Northcentral University (NCU) Business Source Premier database includes the *Journal of Entrepreneurial and Small Business Finance*. However, the latest literature available for the *Journal of Entrepreneurial and Small Business Finance* is October 31, 1996. Searches for full-text, scholarly peer-reviewed literature was conducted using the following NCU databases: Annual Reviews, CredoReference, Ebrary, EBSCOhost, Business Source Premier, EDGAR, ERIC, Gale Business Economics and Theory, InformaWorld, Mergent Online, Northcentral University Dissertations, and ProQuest. A search for full-text, scholarly peer-reviewed literature on the SBA yielded 385 scholarly journal articles and 673 dissertations. However, none of the sources focused on the SBA's 8 (a) program. Using Google, a search was conducted using keywords *Small Business Administration + 8 (a) + peer-reviewed + journal* for literature that was 5 years old or less. While the Google search resulted in 52,600 results, the vast majority of those sources were documents and reports from the SBA, educational institutions, companies, or other government agencies. Therefore, the depth of research available for this was relatively limited in terms of current and scholarly studies on the 8 (a) program in the SBA. Supplemental information sources were examined in the development of this study, including the Federal Procurement Data System (FPDS) which provides statistical information on federal contracts and small businesses; the SBA and its Office of Advocacy; SBA Strategic Plans; the U.S. Census Bureau; the U.S. Bureau of Labor Statistics, the Central Contractor Registration database; findings gleaned from the SBA's annual reports to Congress for fiscal years 1999 through 2008; studies previously conducted on the SBA, on its 8 (a) program, and on programs similar to the 8 (a) program; and, data collected on the availability of comparable business development training and technical assistance resources.

The purpose, research questions, and significance of this study served as the foundation for this literature review that begins with a brief exploration into the SBA's history and mission and explores the importance of small businesses to the U.S.

economy. The SBA's *Annual Reports to Congress* on the status of the 8 (a) program and independent studies analyzing the program's mission, costs, benefits, policies, efficiency, and effectiveness serve as the basis for the following literature review. Additionally, although somewhat dated, there are a few dissertations on the SBA and some of its programs and initiatives, including its 8 (a) program. Several issues highlighted in those studies persist.

This writer's interest in studying the small business sector and, specifically, the 8 (a) program, derived from over 15 years' experience working with small disadvantaged businesses, experiences as a small business owner, experiences as an independent contractor for the SBA, and experiences gained while serving as project director for a nationally acclaimed nonprofit organization's micro-lending program that targeted owners of small disadvantaged businesses in North Carolina. Interest in the effectiveness of the 8 (a) program also derived from historical and ongoing debates regarding whether the attractiveness of the program as a contracting and business development vehicle has been negatively affected by efforts to put it on par with other SBA programs (Oanh-Ha, 2002).

An understanding of why the SBA and its various programs, specifically the 8 (a) program, were established might lead to a framework within which scholarly studies could be conducted to measure the impact of SBA policies, processes, and business assistance initiatives on small businesses. The approach used for the literature review includes concept, theory, and application. The underlying concept for the program and its components are presented in the initial sections, including the history of the SBA; the mission of the SBA; and an overview of the components, participants, and structure of the 8 (a) program. Then, the importance of small businesses and the challenges and benefits of the 8 (a) program are discussed. The chapter ends with a summary of the key points from the literature review.

History of the U.S. Small Business Administration

Since its founding on July 30, 1953, the SBA claims to have delivered millions of loans, loan guarantees, contracts, counseling sessions, and other forms of assistance to small businesses (SBA, 2009d). A review of the most recent SBA report on the number of loans approved from fiscal year 2000 through 2009 is reflected in Table 4 and indicates a steady and a significant decline in the number of small business loans awarded during the past three fiscal years.

Table 4

Number of Approved Loans by Program and Fiscal Year

	Fiscal Year									
Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Guarantied Business										
7(a) Regular	43,724	42,951	46,852	63,936	81,132	95,900	97,290	99,603	69,441	41,272
504 Regular	4,564	5,213	5,480	6,863	8,357	9,194	9,943	10,669	8,883	6,608
SBIC Debentures		42	35	38	41	23	25	40	40	35
SBIC Participating Securities	73	82	50	51	150	0	0	0	0	0
All Other	27	11	4,816	3,375	1	0	0	0	0	0
Subtotal	48,422	48,299	57,233	74,263	89,681	105,117	107,258	110,312	78,364	47,915
Direct Business										
Microloan Direct	67	62	51	86	62	45	44	37	46	69
Subtotal	67	62	51	86	62	45	44	37	46	69
Disaster										
Disaster	28,218	48,852	21,829	25,856	28,510	62,085	169,990	14,011	15,131	21,780
Subtotal	28,218	48,852	21,829	25,856	28,510	62,085	169,990	14,011	15,131	21,780
Total	76,707	97,213	79,113	170,205	118,253	167,247	277,292	124,360	93,541	69,764

Note. Adapted from *Number of Approved Loans by Program*, SBA. Small Business Investment Companies (SBIC).

While the U.S. Small Business Administration was not established until 1953, its philosophy and mission began to take shape much earlier through a number of predecessor programs and initiatives implemented in response to the pressures of the Great Depression and World War II (SBA, 2009d). In 1932, during the Great Depression, President Herbert Hoover created the Reconstruction Finance Corporation (RFC) to help stabilize the economy and small business enterprises through emergency financing and the aid and advocacy of small business enterprises (SBA, 2009d). However, because of rampant fraud and corruption, the U.S. Congress disbanded the RFC in 1954 and transferred its mission to agencies currently known as the SBA, the Department of Housing and Urban Development (HUD), the U.S. General Services Administration, and the U.S. Department of the Treasury (SBA, 2009d).

The Smaller War Plants Corporation (SWPC) was also a predecessor to the SBA. The SWPC was established on June 11, 1942, to promote effective utilization of small businesses producing war material and providing essential human resources. The SWPC provided direct loans to private entrepreneurs, encouraged large financial institutions to make credit available to small businesses, and advocated the interests of small businesses to federal procurement agencies and large corporations (SBA, 2009d). However, according to the SBA, the SWPC was dissolved following World War II and its mission transferred to the RFC. Other agencies and programs that preceded and led to the formation of the current SBA are the U.S. Department of Commerce's Office of Small Business (OSB) and the Small Defense Plants Administration (SDPA). The OSB assumed the duties and responsibilities that have become characteristics of the current SBA, including educational training. Because the OSB believed that lack of information and lack of expertise were at the core of most business failures, its primary focus became education. According to the SBA's historical information, the SDPA assumed the role of certifying small businesses so they could secure loans from the RFC. That mission is similar to the mission of the current SBA's 8 (a) program, which also trains and certifies small businesses so the leaders of these small businesses are able to secure and fulfill federal and nongovernmental contracting requirements. In 1952, in response to mounting criticism about the RFC, SDPA, and OSB, President Dwight Eisenhower, created the SBA and tasked it with the mission of combining and continuing the functions of its predecessors (SBA, 2008b).

The Small Business Administration's Mission

On July 30, 1953, under the Small Business Act, the U.S. Congress tasked the SBA with the mission of aiding, counseling, assisting, and protecting the interest of the nation's small business sector (SBA, 2009a). Moreover, the charter also stipulated that the SBA would ensure U.S. small businesses receive a fair percentage of the federal government's contracts. Specifically, the Small Business Act (also known as Public Law 85-536, as amended) states the following:

> (a) The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment is assured. The preservation and expansion of such competition is basic not only to the economic well-being but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the

declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government (including but not limited to contracts or subcontracts for maintenance, repair, and construction) be placed with small business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation (SBA, n.d.).

(b) It is the declared policy of the Congress that the Federal Government, through the Small Business Administration, acting in cooperation with the Department of Commerce and other relevant State and Federal agencies, should aid and assist small businesses, as defined under this Act, to increase their ability to compete in international markets by enhancing their ability to export; facilitating technology transfers; enhancing their ability to compete effectively and efficiently against imports; increasing the access of small businesses to long-term capital for the purchase of new plant and equipment used in the production of goods and services involved in international trade; disseminating information concerning State, Federal, and private programs and initiatives to enhance the ability of small businesses to compete in international markets; and ensuring that the interests of small businesses are adequately represented in bilateral and multilateral trade negotiations (SBA, n.d.).

Small businesses are believed to be of critical importance in economic development and an array of policies and programs have been initiated to maximize their economic development potential and increase their success rate (Servon et al., 2010). For example, to achieve its mission, the SBA administers several programs and provides a broad range of business development services and financial incentives to help small businesses compete in the federal marketplace. The agency's business development programs are targeted toward women, minorities, veterans, and young entrepreneurs. The business development programs provide participants with services that include loan guarantees, set-aside contracts, mentor–protégé opportunities, business counseling, and technical assistance (U.S. GAO, 2009). For example, while the 8 (a) program is geared toward helping minority business owners develop profitable and sustainable ventures that can successfully compete in the federal and nongovernment marketplaces, the agency's historically underutilized business zones (HUBZone) program was designed to assist businesses operating in economically disadvantaged areas. To assist veterans in starting and growing a business venture, the agency administers the Veterans Business Development Program, which provides business financing and development assistance not only to service members but also to their immediate family members. Likewise, the SBA provides a range of business development services and financial incentives to women-owned businesses through its Women's Business Centers.

Most recently, the SBA launched its business development assistance program for faith-based initiatives and neighborhood partnerships. Regardless of which program a business participates in, the SBA offers guaranteed loan programs that provide financial assistance to small businesses, individuals, and nonprofit organizations (SBA, 2010b).

For example, under the 7(a) Loan Program are the Community Express loans that provide up to $25,000 for startups, Export Express loans to help small businesses operate by exporting to the global marketplace; Rural Lender Advantage for the commercial financial needs of small rural communities; and the Special Purpose Lending Program to meet the needs of small businesses affected by the North American Free Trade Agreement. Additionally, the SBA offers a 504 Loan Program for Community Development Corporations that provides long-term, fixed-rate financing. Finally, the Microloan Program provides short-term loans of up to $35,000 and its Disaster Assistance Loan Program provides low-interest loans to anyone affected by a natural disaster.

As highlighted above, the SBA administers multiple programs designed to foster business development among the U.S. small business sector. The underlying theory is that, by providing businesses with technical, managerial, and financial resources deemed requisite to business success, the businesses will be able to compete successfully in the marketplace even after they leave the safety net of their SBA program. Although the viability of all small businesses is crucial to the economy, this study was limited to small businesses participating in the SBA's 8 (a) program because, while programs highlighted above are relatively new, the 8 (a) program has been in existence for 42 years. Moreover, the 8 (a) program shares many components of predecessor programs and faces increasing levels of cynicism and scrutiny, in part, because it has been labeled as an entitlement or set-aside program. Noon (2009) studied use of preferences in public procurement for social stability in the 8 (a) program and concluded that, despite criticisms, the 8 (a) program is vital to the development of small disadvantaged business. Blum (2008) challenged the use of factors such as race, ethnicity, and gender in awarding federal contracts and special treatment for 8 (a) business owners and asserted the U.S. Congress must create new legislation that would allow all small business owners, regardless of their ethnic heritage or race, to compete for federal contracts. Entitlement programs often receive criticism because they are viewed as benefiting individuals who are perceived as not having made a fair share of contributions to the federal coffers whereas set-aside programs have been attacked because they historically have been targeted toward specific groups. In contrast, Henderson (1995) noted that entrepreneurial empowerment is enhanced not only by effective policy development but also by effective policy implementation of the 8 (a) and other set-aside programs.

In studying the impact of set-aside contracts on firms participating in the 8 (a) program, Ong (2001) found that set-aside programs increased the ability of minority-owned firms to compete in the private sector. Ong's study was limited in scope because empirical models used were incomplete in that the data set did not contain information on key factors such as educational attainment or prior business experience, and such factors could have been correlated with participation in 8 (a) sales. The SBA counters the arguments by asserting that small businesses are at the forefront of innovations; are more flexible and more daring than their big business counterparts; produce products that line shelves of the country's museums, shops, and homes; and keep the American dream intact (SBA, 2009d).

Overview of the 8 (a) Business Development Program

The SBA 8 (a) program was created in 1968 during President Richard Nixon's administration and derived from an amendment to the Small Business Act [Section 8 (a)].

Section 8 (a) of the Small Business Act posits that certain businesses lack crucial resources needed to compete successfully for contracts against larger, better positioned, and more strongly financed firms (U.S. Commission on Civil Rights, 2005). Under Section 8 (a), the SBA was tasked with helping owners of small disadvantaged businesses learn to navigate the federal procurement marketplace and compete in the U.S. economy through business development (Title 13–Business Credit and Assistance, 2006). According to the SBA, the 8 (a) program achieves its mission by providing business development support in the form of mentor–protégé opportunities, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance.

8 (a) Participation Requirements

To participate in the 8 (a) program, the owner of a small business must meet specific requirements. Essentially, an individual or individuals deemed to be socially and economically disadvantaged must own and must control their business. Under the Small Business Act, individuals considered disadvantaged in U.S. society are those classified as Native Americans or Alaskan Natives, Black Americans, Hispanic Americans, Asian and Pacific Islanders, and other groups designated by the SBA, including Caucasian females. However, not being a member of any of the aforementioned groups does not mean an individual could not meet the 8 (a) eligibility requirements. For example, other individuals can be admitted to the program by demonstrating, through a preponderance of the evidence, that they are disadvantaged because of their race, ethnicity, gender, physical handicap, or residence in an environment that isolates them from mainstream America (SBA, 2009e).

The 8 (a) policy stipulates that an applicant should have been in business for at least 2 years prior to applying for admission into the program and must also fulfill a number of other requirements such as being at least 51% owned and controlled by a member of one or more of the aforementioned designated groups (SBA, 2009e). There are also business size requirements as depicted in Table 5, such as net worth limits and technical and operational requirements that indicate a reasonable likelihood for a venture's success. After being admitted to the program, also known as being 8 (a) certified, a business's owner must submit annual reports and undergo annual performance reviews. A business owner can remain in the 8 (a) program for a period of up to 9 years, although many business owners leave the program earlier due to voluntary or involuntary withdrawal.

Table 5

SBA Small Business Size Classification by Industry

Industry	Maximum number of employees	Annual receipts must not exceed
Manufacturing	500–1,500 (depending on type of product manufactured)	N/A
Wholesaling	100 -500 (depending on type of product provided)	N/A
Services	N/A	\$2.5M–\$21.5M (depending on the type of service being provided)
Retailing	N/A	\$0.5M–\$9.0M (depending on the type of product being provided)
General and heavy construction	N/A	\$13.5M–\$17M (depending on the type of construction)
Special trade construction	N/A	\$7M
Agriculture	N/A	\$0.5M–\$9.0M (depending on the agricultural product)

Structure of the 8 (a) Program

The 8 (a) program is divided into two stages: a 4-year developmental stage and a 5-year transitional stage. The focus of the developmental stage is on providing business development assistance to owners of certified 8 (a) firms, whereas the transitional stage is designed to assist 8 (a) business owners in overcoming remaining elements of economic disadvantage. The goal of the transitional stage is to prepare 8 (a) business owners to be successful once they have left the nurturing structure of the program (Smith, Robertson-Saunders, & Finara, 2004).

8 (a) Program's Business Development Phase

During the developmental stage, owners of 8 (a) businesses can receive sole source and competitive 8 (a) contracting support, financial assistance, transfer of technology or surplus property owned by the U.S. government, and training to aid in developing business principles and strategies to enhance their ability to compete successfully for 8 (a) and non-8 (a) contracts (SBA, 2009a). During the developmental phase, services and incentives are typically provided in accordance with Section 7(j) of the Small Business Act. Under Section 7(j) of the Small Business Act, the SBA is authorized to enter into grants, cooperative agreements, or contracts with public or private organizations to pay all or part of the cost of technical or managerial assistance for individual 8 (a) firms. Under the 7(j) program, 8 (a) small business owners can receive counseling and training in the areas of financing, management, accounting, bookkeeping, marketing, and operations. As noted previously, numerous resources provide such training at no cost to participants. For example, many libraries and educational institutions have free, ongoing small business seminars and workshops.

Additionally, the Service Corps of Retired Executives, which has been in existence since 1964 and is also an SBA partner, provides a broad range of free business consulting services to entrepreneurs at practically all levels. Hence, contracts awarded to 7(j) firms have been viewed by some as unnecessarily adding to the perceived financial burden created by the 8 (a) program.

Knaup and Piazza (2007) highlighted the 8 (a) program's role and particularly the role of the developmental phase of the program in fostering the development and sustainability of U.S. small businesses. Knaup and Piazza tracked firms started during the second quarter of 1998 to determine survival rate and found that small businesses that survived the first 4 years had a better chance of surviving long term. That finding indicated that, despite participants' primary motivation for entering the 8 (a) program (i.e., for federal set-aside contracts) and despite some arguments indicating that some of the program's components are redundant and ineffective, the developmental phase of the program is critical to the success of a business. As previously noted, the OMB classified the 8 (a) program as ineffective and that finding put the program at risk of being retired in accordance with the initiatives to eliminate ineffective, inefficient, and redundant federal programs. Moreover, the proliferation of free or inexpensive small business development resources and tools available from a broad spectrum of nonfederal government sources indicates that the training component of the program and its associated costs might not be justifiable.

8 (a) Program's Transitional Phase

During the 5-year transitional phase, 8 (a) firms receive the same assistance provided during the developmental stage as well as assistance in forming joint ventures, leader–follower arrangements, and teaming between concerns and other participants or other businesses with respect to contracting opportunities outside of the 8 (a) program (e.g., research, development, full-scale engineering or production of major systems). The transitional stage is designed to prepare firm leaders for business life after completing the 8 (a) program. Firms successfully completing the full 9 years of the 8 (a) program are referred to as graduated. A participating business may exit the program by graduating pursuant to Section 123.2 C.F.R., voluntary early graduation, early graduation pursuant to Sections 123.302 C.F.R. and 124.304 C.F.R., or through termination pursuant to Sections 124.303 C.F.R. and 124.304 C.F.R. Table 6 reflects the status of firms that participated in the SBA surveys from fiscal year 1999 through fiscal year 2009.

Table 6

Status of 8 (a) Firms Exiting Within 3 Years Prior to the Reporting Year

Fiscal Year	Number of firms used in report	Independently operational	Substantially curtailed operations	Acquired by nondisadvantaged business owner	Ceased operation	Data not available[a]
2009	1,374	1,267	28	0	79	95
2008	1,093	906	98	1	89	73
2007	1,361	1,083	170	2	106	51
2006	1,301	1,021	147	1	132	103
2005	988	810	26	25	127	776
2004	1,015	776	19	21	199	692
2003	481	415	9	4	53	992
2002	1,093	628	11	10	54	390
2001	1,077	689	10	10	61	307
2000	1,479	613	12	14	146	694
1999	1,354	709	20	15	71	539

[a]Did not respond to survey.

Importance of Small Businesses to the Economy

Historically, political perspectives have been concerned with the balance of benefits and costs for social programs and, even today, there remain concerns that some long-standing government programs might be continuing without any real evidence that funds expended to support them are yielding worthwhile returns on taxpayers' dollars (OMB, 2010). Small businesses have a crucial role in the development of employment, innovation, and social and economic growth (Martinez-Costa & Jimenez-Jimenez, 2009). Creating jobs is one of the biggest challenges to renewed economic prosperity and that challenge has focused attention on the nation's small businesses (Baily, Dynan, & Elliott, 2003). In December 2008, as the unemployment rate soared, the National Bureau of Economics (2009) proclaimed the U.S. economy to be officially in a recession and the U.S. House of Representatives' Committee on Small Business reported the small business sector, which had traditionally served as an economic catalyst, was struggling. According to Solis (2009), when the recession unofficially started in December 2007 with the collapsing housing market and subsequent collapse in credit, small businesses struggled to raise the level of working capital needed to keep employees on their payrolls while the economy was in the midst of shedding 700,000 jobs per month. However, during that same period, the SBA (2009b) heralded the role of small businesses in helping states recover from economic turmoil and emphasized that many of the states with the largest shares of their 2008 employment in small firms were also generating the largest increases in jobs. Additionally, Tobias (2009) found that more than half of states with the largest shares of private sector employment in small firms (i.e., between 51.6% and 69.8%) realized employment increases during fiscal year 2008 (see Appendix B).

Small business owners play a vital role in the current U.S. economy and their businesses have been described as job creation engines; hotbeds of innovation; havens of opportunity for women, minorities, and the poor; builders of social capital for economic development; and, contributors to economic diversity (Hamlin & Lyons, 2003).

Despite survival challenges faced by the small business sector, Tobias (2009) did not address critical small business issues and concerns such as financing, growth and development, profitability, or sustainability. According to the U.S. House of Representatives' Committee on Small Business, during past economic downturns, small businesses managed to survive on loans from the SBA but during the current economic turmoil, those loans are disappearing as lending declined by 60% in fiscal year 2008, consequently leaving small business owners struggling and taking desperate measures to keep their businesses operating. For fiscal year 2009, the SBA's Annual Report to Congress indicates that 8,827 firms were participating in the 8 (a) program and that those firms not only made significant contributions to the federal, state, and local tax base through their 199,669 jobs but that those firms also generated total revenues exceeding $21.9 billion, with $9.8 billion of that figure resulting from participation in the 8 (a) program (Mills & Jordan, 2010c). Low survey response rate is one of the limitations of conducting a study on 8 (a) program participants who have exited the program. Consequently, the SBA relies heavily on data collected from Dun and Bradstreet, the U.S. Department of Labor, and the Internal Revenue Service.

Headd (2009) proposed that job creation is not as important to policy makers as it is to job seekers. According to the U.S. Department of Commerce and the U.S. Bureau of the Census, in 2008, there were 29.6 million businesses in the U.S. with small firms of less than 500 employees representing 99.9% of that figure (Office of Advocacy, 2009). In fact, the SBA reported that the overwhelming percentage of small businesses is home-based business sole proprietorships. Despite the annual gross revenue of home-based businesses being below the revenue of their other small business counterparts, Pratt (2006) noted that home-based businesses gained a higher return on their gross revenues (i.e., 36% for home-based businesses compared to 21% for other small businesses).

As the pressure to reduce the size of government and expand private sector and nongovernment involvement in social programs increase, the need to justify public spending and to ensure government funded interventions are achieving intended objectives is also increasing (Blomquist, 2003). The ability to demonstrate the importance of small businesses to the U.S. economy is crucial in light of arguments posed by analysts such as de Rugy (2005) who vigorously and routinely question whether benefits afforded small businesses and their being touted as the fountainhead of job creation and engines of economic growth warrant their receiving exclusive federal financial incentives and protection. Although advocating for the ending of all subsidies to small businesses, de Rugy conceded that America benefits from a vibrant business sector and that small businesses contribute to growth and innovation. However, de Rugy also theorized that the small business job creation machine is a myth and argued the importance of challenging that long-held perception. However, when evaluating the effectiveness and efficiency of a program, all costs and all benefits to society must be considered, including intangible benefits that cannot be easily measured in monetary or other quantitative terms (Dunn, 2004).

The 8 (a) program targets women-owned and minority-owned businesses. However, in a January 2008 ruling, the SBA identified only four industries in which it found women-owned small businesses are represented and eligible for set-aside contracting assistance (i.e., intelligence, engraving and metalwork, furniture and kitchen cabinet manufacturing, and motor vehicle dealers). According to Chapman (2006), in fiscal year 2005 the number of small businesses receiving federal contracts declined to a record low of 17% of the total federal contracting dollars awarded despite the Small Business Act of 1953 regulation that requires at least 23% of federal contracting dollars go to small businesses. According to Chapman, fraud, abuse, and lack of oversight are rampant in the federal small business contracting arena and House Democrats have encouraged the U.S. GAO to investigate the extent of contracting abuse and to determine whether contracting officers are intentionally miscoding contracts to large businesses that were set aside for small businesses.

Senator John Kerry, a member of the Senate Committee on Small Business and Entrepreneurship, has argued that the SBA routinely engages in false reporting about the number of small businesses receiving federal contracts (Gangemi, 2006). Contracting assistance is one of the main reasons small business owners and entrepreneurs seek to participate in the 8 (a) Business Development Program, ensuring that this mechanism of the program is effective and operates as it was initially intended is crucial. At various times, policy makers, funding organizations, planners, program managers, taxpayers, and program clientele must distinguish worthwhile social programs from ineffective ones, launch new programs, or revise existing programs to achieve certain desirable results (OMB, 2010).

Challenges and Benefits of the 8 (a) Program

This section of the literature review focuses on internal and external studies conducted on the SBA and the 8 (a) program over the past decade. To comply with the Reports Consolidation Act of 2000, the Office of Inspector General is required to submit annual reports detailing the most serious management and performance challenges facing the SBA. Likewise, the Business Opportunity Development Reform Act of 1988 [15 U.S.C. 6363(j) 16(A) and (B) and Section 7(j)(16)(A)] of the Small Business Act requires the SBA, by April 30 of each year, to provide the U.S. Congress with annual reports detailing the following data and information that were useful in this study:

1. The average personal net worth of individuals who own and control concerns that were initially certified for participation in the 8 (a) program during the immediately preceding fiscal year.

2. The dollar distribution of net worth of all individuals who own and operate an 8 (a) firm and were socially and economically disadvantaged upon acceptance into the program.

3. A description and estimate of benefits and costs that accrued to the economy and to the government in the previous fiscal year due to the operations of 8 (a) firms.

4. A compilation and evaluation of 8 (a) firms that exited the program during the prior fiscal year.

5. An evaluation and details of the number of concerns actively engaged in business operations and those that have ceased operations.

6. A listing of all 8 (a) participants during the preceding fiscal year by state and by region and detailing for each firm the name of the concern; the gender, race, and

ethnicity of disadvantaged owners; the dollar value of all contracts each business received; and the dollar amount of advance payments received by each concern under Section 8 (a).

7. The total dollar value of contracts and options awarded during the preceding fiscal year and the percentage of the firm's total sales.

8. A description of additional resources or program authorities as may be required to provide the types of services needed over the next 2-year period to service the expected portfolio of certified 8 (a) firms.

Details provided in internal reports, as highlighted above, combined with previously conducted external studies, formed the basis for this study. Despite advocates touting its successes and necessity, the 8 (a) program was identified by the OMB as redundant and ineffective. Moreover, OMB noted that the number of 8 (a) contracts awarded to small businesses has steadily declined, with the bulk of those that are awarded routinely going to the same small percentage of 8 (a) firms or to large firms masquerading as small businesses. Skolnik and Chmelynski (1993) studied federal procurement patterns and concluded that, while the number of federal contracts awarded to women-owned and minority-owned businesses appear quite low, that does not mean that an inequitable situation exists; in part, because federal procurement might be concentrated in industries dominated by large businesses. However, a study conducted by the U.S. Congress' House Small Business Committee (2006) found that, despite a 57% increase in federal contracting dollars spent, the number of small businesses receiving those dollars declined significantly.

Additionally, the 8 (a) program's cost is being scrutinized as legislators seek solutions to the current budget deficit by identifying and proposing budget cuts or terminations for federal programs that have been labeled as ineffective or redundant. Although one of the missions of the 8 (a) program is to train leaders of small disadvantaged businesses, only a few well-positioned companies receive assistance and contracts (SBA, 2009c). Moreover, according to the U.S. House Small Business Committee (2006), a lack of SBA oversight has led to an increase in miscoding of 8 (a) businesses information and eligibility for contract awards. Miscoding has resulted in the SBA failing to meet small business contracting goals and that failure, as of fiscal year 2006, has cost small businesses $4.5 billion in lost contracting opportunities (see Appendix C). Equity in distributions of 8 (a) federal contracting dollars is significant because previous studies found that most firm leaders pursue the 8 (a) program because they view it as their entrée into federal contracting, and they are less committed to utilizing the program as a small business training resource, in part, because of the growing number of training resources available outside of the SBA.

The SBA advertises multiple benefits to participating in the 8 (a) program. Among those benefits are eligibility to compete for sole-source and set-aside federal contracts that are supposed to be exclusive to small businesses in the 8 (a) program, eligibility to qualify for SBA-backed financing, and access to technical assistance and training in business practices. Set-aside and sole-source designations are of considerable value because an 8 (a) business could receive up to $3 million in a sole-source or set-aside contract for commodities or services or up to $5 million for a similar manufacturing contract (Abramowicz & Sparks, 2007). Recent changes also allowed 8 (a) firms to form joint ventures with teams to bid on contracts so they are better able to perform larger prime contracts and overcome effects of contract bundling. A review of OIG reports spanning the past 10 fiscal years revealed multiple and persistent issues with many of the benefits promoted as reasons owners of small disadvantaged business should pursue 8 (a) certification. Major challenges noted by the OIG (2007) include the need to enhance business development processes, the need to define eligibility standards objectively, the need to upgrade training and information systems, the need to improve graduation procedures, and the need to enforce better oversight of contractor compliance with program regulations.

According to the U.S. GAO (2005), many 8 (a) firm owners are dissatisfied with the program's policies and procedures and despite the business development training component of the 8 (a) program, participants' primary motivation for seeking 8 (a) status is the opportunity to receive set-aside government contracts. Small businesses owners who were surveyed by GAO believed the 8 (a) program should be more heavily focused on facilitating contract acquisition rather than its current emphasis of management training and development (U.S. GAO, 2009).

Similarly, attractive alternatives such as agency procurement schedules now compete with the 8 (a) program for expeditious procurement action. A July 2006 report from a congressional small business committee described a growing trend wherein contracts set aside for small businesses were being awarded to conglomerates (American Small Business League, 2006). The SBA's OIG (2005) asserted that one of the most important challenges facing the SBA and the entire federal government is that large businesses are receiving small business procurement awards and federal agencies are receiving credit for those awards. Consequently, presenting an inaccurate picture of the number of actual small disadvantaged businesses receiving federal contracts and leading to an inaccurate assumption that federal agencies are meeting their annual goal for set-aside contracts awarded to small disadvantaged businesses.

Additionally, although not necessarily regarding just 8 (a) firms, SBA financial backing practices are also receiving criticism. Financing is one of the problems with which 8 (a) firms must grapple and, in that respect, 8 (a) firms are not unique. In general, access to capital and lines of credit are among the major problems encountered by small businesses (Servon et al., 2010). While participants within the 8 (a) program face multiple issues and challenges, few studies have been conducted to measure the efficiency and effectiveness of the program or its impact on participating firms (U.S. GAO, 2009). Lawmakers promote SBA loans as tools for helping small businesses. However, de Rugy (2007) posited that SBA guaranteed loans are a form of corporate welfare for the country's largest banks because the banks reap profits from the program at the expense of taxpayers. Clark et al. (2006) noted that small businesses in the federal marketplace are at a crossroads and if the overwhelming percentage of all new jobs are created through small businesses and small businesses produce 13 to 14 times more patents per employee than large companies, then it is time to redirect national policies to reflect the vital importance of this segment of the business community.

The SBA has acknowledged that its small business contracting data have been unreliable for over 20 years, that federal agencies are routinely falling short of their small business contracting goals, that $4.6 billion in contracts were removed from the small business contracting database due to miscoding, and that small businesses failing to recertify their size status resulted in contracts awarded to large businesses. Additionally, the SBA has acknowledged that, during past years, the application processing time for firms interested in participating in the 8 (a) program has been excessive, in part because certification centers had insufficient support staff, which resulted in applicants and participants either not being served or being underserved.

According to the SBA's Office of Inspector General's *Fiscal Year 2010 Report on the Most Serious Management and Performance Challenges Facing the SBA* (2011), in past years, the SBA did not place adequate emphasis on the business development needed to enhance the ability of 8 (a) firms to compete and did not adequately ensure that only 8 (a) firms with economically disadvantaged owners in need of business development remained in the program. Moreover, the OIG's fiscal year 2010 report acknowledged that companies deemed as business successes were routinely allowed to remain in the 8 (a) program and continued to receive 8 (a) contracts and that led to a select few 8 (a) firms receiving the bulk of 8 (a) contract dollars while others received none. However, during the review of literature, it was noted that several 8 (a) program challenges that were coded red to denote they were in a critical state but that little progress had been made were either omitted from subsequent years' reports or updated information on the status of critical issues was very limited. Although such issues are generally problematic, they can be particularly troublesome in an economy that is struggling in all sectors.

As noted in the Definition of Terms section of Chapter 1, under the definitions of designated disadvantaged groups, participation in the 8 (a) program is limited to members of minority groups of both genders and Caucasian females. Previous studies of the 8 (a) program and similar nongovernment administered programs have involved exploring how women-owned and minority-owned businesses are faring in the U.S. Researchers who focused exclusively on the SBA and its 8 (a) program have used success indicators such as number of contracts received, number of firms successfully completing the program, firms' sustainability and profitability, and resources available to participating firms. Fregetto (1999) examined whether disparities between disadvantaged business enterprises (DBEs) and nondisadvantaged enterprises (non-DBEs) are reduced when DBEs are utilized by a government agency.

According to Fregetto (1999), disparity studies are used to establish goals for race and sex preference procurement programs by calculating the ratio of available DBEs to DBEs that have been utilized. Fregetto explored five sets of economic factors: financial, low-bid position, price and consumer price index change, competition, and a firm's pricing strategies and found four disparities between DBEs and non-DBEs that compete for an agency's contracts. Specifically, Fregetto's study of the effectiveness of a race-conscious and gender-conscious disadvantaged business policy to create a pool of DBEs that can successfully compete against non-DBEs indicated that, over a 10-year period, DBEs did not achieve competitive parity with non-DBEs. Moreover, Fregetto concluded that an effective disadvantaged business policy must include management assistance that helps participating businesses overcome competitive disparity. Hamlin & Lyons assert that, when enumerating contributions of small businesses to the U.S. economy, it is important to note opportunities small firms have provided groups who have traditionally lacked economic power, such as women, minorities, and low-income individuals. For women, owning a small business can provide a means of getting out from under the proverbial glass ceiling and that might be the primary reason women have become the predominate group among entrepreneurs (Hamlin & Lyons, 2003).

To study whether length of participation in the 8 (a) program positively influences the growth and development of participating firms, Smith et al. (2004) conducted an exploratory study designed to answer the following research questions: (a) Did the 8 (a) firms' technical assistance and finance needs changed during the time they participated in the 8 (a) program, (b) did changes in participating firms' profiles suggest positive development, and (c) did participation in the 8 (a) program have a significant positive correlation to firms' growth? Smith et al. surveyed 115 8 (a) firms operating in the New York District and had a response rate of 31%, which was satisfactory. Smith et al.'s survey included questions on technical assistance, financial assistance, and set-aside contracts. Smith et al. found a change in firms' financial statements with time in the 8 (a) program as well as an associated decline in the need for technical assistance in obtaining financing as a function of time in the 8 (a) program.

In addition, Smith et al. (2004) revealed a decrease in the need for marketing assistance and an increase in a firm's size as a function of participating in the 8 (a) program. Smith et al. concluded there is compelling preliminary evidence that, at least for the participants in that study, the 8 (a) program had accomplished the goals for which it was established because it had contributed to the growth and development of the participating firms. In doing so, it had incrementally increased the prospects for continued viability of the socially and economically disadvantaged business sector. Moreover, because of the inclusiveness of the 8 (a) program, Smith et al.'s findings bode well for businesses across cultural and international boundaries. However, Smith et al.

insisted that what remains is for U.S. policy makers to avoid precipitous action to curtail or even dismantle the 8 (a) program in the current frenzy over affirmative action and set-aside programs. Rather, a reasoned approach to assessment of the 8 (a) program would dictate a move to expand the research to determine the broader economic impacts of the program, particularly from a longitudinal perspective.

The results of such research might prove useful to those seeking to bolster a socially and economically disadvantaged business sector (Smith et al., 2004). Henderson (1995) reported that the SBA's 8 (a) program raises issues of minority business empowerment and effective policy implementation, and according to a report from the Commission on Minority Business Development, the 8 (a) program is seriously flawed in those areas. Henderson asserted that regulation and enforcement, coordination, evaluation, monitoring, and accountability are serious challenges to the viability of the program. Moreover, according to Henderson, entrepreneurial empowerment is enhanced by not only effective policy development but also effective policy implementation for the 8 (a) program and for other set-aside programs.

Brown (1994) used a mixed-method research approach that combined secondary qualitative research, primary qualitative case studies, and a pilot study of 186 8 (a) firms operating in Fairfax County, Virginia, to identify potential barriers for 8 (a) businesses competing for federal government contracts. Brown's study was designed to answer the following questions: (a) what capabilities are required to compete successfully for 8 (a) contracts and (b) what do 8 (a) business owners perceive their learning needs are related to securing a contract? Brown mailed surveys to 4,600 8 (a) businesses and had a 4% response rate (i.e., 186 respondents). Brown's pilot study fared somewhat better with a

20% response rate. In assessing respondents' view of the significance of training and education, Brown's survey contained questions on 87 business topics considered critical to becoming a successful entrepreneur and identified the following barriers: the 8 (a) certification process, access to federal contracting opportunities, federal government procurement personnel, lack of financing, use of wrong performance measures, the SBA staff, and ineffective processes and policies; each barrier had learning and policy implications (Brown, 1994). Although Brown's study was conducted in 1994, it remains relevant because it is one of very few studies that included a focus on 8 (a) challenges and issues that persist.

In its fiscal year 2009 *Report on the Most Serious Management and Performance Challenges Facing the SBA*, the OIG noted that little improvement had been made in eliminating or significantly reducing procurement flaws that allow large firms to obtain small business awards or in the tendency for federal agencies to count contracts awarded to large businesses toward their small business procurement goal (SBA, 2009b). The fiscal year 2009 report also indicated that little progress had been made in key agency and program areas; most notable was the agency's admission that very limited progress had been made in implementing guidance to ensure effective oversight of lending programs or in ensuring effective corrective actions were implemented, monitored, and resulted in improvement in the performance of participating firms with a record of unacceptable program performance. In addition, although the *Fiscal Year 2009 Report on the Most Serious Management and Performance Challenges Facing the SBA* (SBA, 2009b) reported that little progress had been made in developing and implementing a plan, including standard operating procedures provisions that would ensure that the 8 (a) program identified and addressed the business development needs of its participants on an individual basis, the agency's fiscal year 2010 report (SBA, 2010a) did not mention or otherwise address this challenge. Further, the fiscal year 2009 report noted there had been no progress in establishing objectives and reasonable criteria to measure economic disadvantage effectively, and this challenge was also omitted from the fiscal year 2010 report.

The Effectiveness of Business Development Programs

Although few researchers have examined the effectiveness of the SBA's 8 (a) program, similar programs have been evaluated empirically to determine effectiveness and efficiency. Kolodinsky and Schmidt (2007) examined a micro-business development program funded at the state level in Vermont. The goal of this study was to determine factors that contributed to program success. A variety of factors were considered including client characteristics such as gender, marital status, education, age, personal financial assets, and previous business experience, business characteristics such as access to capital, and program activities such as course completion. Kolodinsky and Schmidt found that the most successful small businesses were those for which the business owner had prior business experience, was younger, and was more educated, the business had more access to capital, and the business owner completed the program courses. However, the gender of the business owner was unrelated to the success of small businesses (Kolodinsky & Schmidt, 2007). Schmidt et al. (2006) noted that empirical studies of the effectiveness of business development programs have produced mixed results in terms of assisting disadvantaged Americans (e.g., females and those of minority ethnic groups). According to Schmidt et al., programs such as Vermont's micro-business development program can assist clients in starting their business, creating jobs, and accessing needed business capital. Schmidt et al. also concluded that for members of minority ethnic groups, such programs could decrease reliance on government assistance programs such as welfare.

Sonfield (2007) compared the success rate of minority-owned businesses to the success rate of majority-owned businesses and found that majority-owned businesses have a 10-year success rate of 72.6%, compared to only 61.0% for businesses owned by African Americans. Hispanic-owned businesses (68.6%) and Native American-owned businesses (67.0%) succeeded at slightly higher rates than those owned by African Americans, but were still below the success rate of Majority-owned businesses. According to Hocker (2005), African Americans are more likely to start a small business, as were members of other minority groups, when compared to Caucasians, but with lower success rates. Shah and Ram (2006) noted that economic inequities between majority and minority individuals could be partially addressed by business development programs that focus on assisting minority groups. In a qualitative case study of small business suppliers to large corporations, Shah and Ram concluded that individuals at the large corporations took business development program status (e.g., whether the small business was involved in a minority-based business development program or not) into account when awarding contracts. Although studies of gender or ethnic differences in success in business development programs are rare, Cook, Belliveau, and Lentz (2007) compared male and female participants in a microbusiness development program in terms of the quality of their business plans. Cook et al. found that females' plans were superior to males' plans. However, whether this translates into greater success in the SBA's 8 (a) program is unknown. As noted above, Kolodinsky and Schmidt (2007) did not find any gender difference in the success of small businesses involved in business development programs.

To evaluate the effects of government procurement on the success of small businesses participating in the SBA's 8 (a) program, Ong (2001, p. 60) examined the opportunity for 8 (a) participants to receive sole-source governmental contracts through SBA agreements with federal agencies. Ong hypothesized that 8 (a) sole-source contracting via government sales help strengthen a firm's capacity by providing valuable experience that increased a firm's ability to compete in the private sector. To test the hypothesis, Ong examined the survival rates of firms approved for participation in the 8 (a) program during the mid-1990s to determine if government sales enhanced their competitiveness and survival rate compared to firms that did not receive 8 (a) contracts. Ong found that participating in 8 (a) sole-source contracting affected a firm's survival. The central hypothesis of Ong's study required an empirical model that took into account other causal factors. Ong's empirical model was incomplete because the data set did not contain information on key factors such as educational attainment and prior business experience that might correlate with participation in 8 (a) sales.

Green (1996) examined perceptions and values of Black American and other minority chief executive officers (CEOs) about the effect of public policy and graduate management education on entrepreneurial success. Green used comparative analysis to determine whether the level of entrepreneurial success assesses whether CEOs who had not participated in the 8 (a) program perceived 8 (a) participation as important to entrepreneurial success. The study included two groups (CEOs from the SBA 8 (a) program and CEOs from *Black Enterprise* magazine's Black Enterprise 100 firms) to test eight null hypotheses about perceptions and values associated with the level of entrepreneurial success. The Black Enterprise 100 group represented the control group in Green's study while the study group consisted of CEOs from the 8 (a) program. Each of Green's null hypotheses were tested by comparing the responses of the study and control group and using a multiple regression model to control for variables other than public policy and graduate management education that could explain the level of entrepreneurial success. In Green's multiple regression model, success was the criterion variable (i.e., the perception of success and the financial measures of entrepreneurial success) and policy and education were predictor variables that formed the basis for the problem statement. Green expected that findings from the multivariate models would reveal that SBA CEOs considered public policy to be statistically more important than graduate management education in achieving entrepreneurial success. Managerial training is the primary reason small business owners seek to become 8 (a) firms, yet management training is one of the costs incurred by the SBA to maintain a nationwide cadre of professionals contracted under 7(j) to provide management training to owners of certified 8 (a) firms.

As noted previously, the SBA's mission is to strengthen the U.S. economy by assisting small businesses and one of its primary goals is to ensure small businesses receive a fair portion of federal procurement dollars (SBA, 2009d). According to the SBA's 2007 report to the U.S. Congress, more than 900,894 contracts valued at $127.1 billion were awarded through the 8 (a) program (Preston & Ott, 2007). Additionally, during fiscal year 2007, 8 (a) firms employed an estimated 192,979 people or an average of 20.5 employees per company. However, the cost of the 8 (a) program continues to overshadow its perceived benefits and threatens to undermine its existence. Additionally, despite multiple revamps and changes to policies and procedures, participants in the program continue to express discontent with how the program is being administered (e.g., contract bundling, the overwhelming majority of set-aside contracts going to a small percentage of participating firms, emphasis on business training as opposed to winning federal contracts, and coding policies and practices that result in small business set-aside contracts being awarded to large firms with small business fronts).

Summary

Chapter 2 provided information and a discussion of issues relevant to this study. Additionally, the importance of small businesses to the U.S. economy and persistent issues and challenges faced by the SBA in administering the 8 (a) program and those faced by owners of small businesses participating in the program were highlighted. According to the SBA's Office of Inspector General (2009c), as of the end of fiscal year 2010, serious challenges facing the agency and the 8 (a) program include persistent procurement flaws that continue to allow large firms to obtain small business contracts and allow reporting agencies to count those contracts as being awarded to small businesses; weak information systems that pose significant security threats to the agency's data and other information; insufficient human capital necessary to effectively carry out the agency's mission; insufficient human capital needed to become a high-performing organization; insufficient controls over loan purchasing and liquidation processes; insufficient oversight over lending partners and participants; the need to modify the 8 (a) program so that more participants receive business development assistance; the need to revise standards used to determine economic disadvantage so they are clear and objective; and the need to revise policies and processes used to ensure owners of all 8 (a) businesses follow regulations when completing a contract's requirements. The SBA's Office of Inspector General's *Fiscal Year 2010 Report on the Most Serious Management and Performance Challenges Facing the SBA* concluded the agency had not placed sufficient emphasis on business development assistance needed to enhance the ability of owners of 8 (a) firms to successfully compete in the marketplace. Moreover, the Office of Inspector General's researchers suggested the agency does not adequately ensure that only 8 (a) firms with economically disadvantaged owners are allowed to participate in the program nor does the SBA have an effective system in place to remove companies from the program. Shear (2010) evaluated the SBA's internal control procedures used to determine a small business owner's 8 (a) eligibility and found that, because the agency relied primarily on its annual review of 8 (a) firms to ensure their continued eligibility to remain in the program, inconsistencies and weaknesses in annual review procedures limit program oversight. Inconsistencies and weaknesses include failure of SBA personnel to complete required annual reviews that were needed to assess fundamental eligibility criteria (e.g., being socioeconomically disadvantaged), the lack of specific criteria in SBA's current regulations and insufficient procedures used to determine whether firms exceed program thresholds for industry size averages, personal income, and personal asset limits. Such issues can affect costs associated with operating the 8 (a) program as well as benefits participants expect to receive through their participation in the program.

In addition to providing an overview of the SBA and its 8 (a) Business Development Program, Chapter 2 also included a discussion of the goals and importance of the program and a review of literature that addressed the success of business development programs. The importance of assisting female-owned businesses and minority-owned businesses to become successful was also discussed, as was the effectiveness of business development programs in meeting this goal. Neeley & Van Auken (2010) asserted that studying female-owned small businesses and minority-owned small businesses is important because those businesses are increasingly important to the U.S. economy in terms of numbers of firms owned, revenues, and employment. According to Watson (2003), female-owned businesses generally underperform male-owned businesses on a variety of measures, including revenue, profit, and growth and historically had higher failure rates than male-owned businesses. Using data collected from the U.S. Census Bureau, the U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, and the SBA, Didia (2008) explored the 1990s economic expansion that resulted in the start-up of a large number of minority-owned businesses to determine whether those businesses benefitted from that era's prosperity and if so, to what extent. Didia concluded that despite a decade of remarkable economic growth during the 1990s, minority-owned businesses grew in numbers but not in terms of sales and receipts. According to Didia, as the marketplace and business opportunities grew, minority-owned businesses' share of the economy got smaller and that outcome should be of concern to the government and to the private sector. Moreover, Didia suggested business development programs and efforts of federal, state, and local governments, as well as by private sector, do not seem to be positively influencing the development of profitable and sustainable minority-owned businesses. Business development training is a key component of the 8 (a) program and through its nationwide network of Small Business Development Centers (SBDCs), the SBA works with small businesses owners to help them prepare business plans; provides free individual counseling to small business owners; assist small business owners with technology, research, and development needs; maintains a comprehensive library of current business information and statistical data; and provides financial assistance and resources (Wichman & Boze, 2007). Controlling costs associated with providing business development assistance is a challenge for the SBA as it attempts to streamline its operations while meeting the needs of the nation's small business owners and growing demands to reign in government spending on social programs. However, following a review of literature, it was concluded that research into the effectiveness of business development programs and gender- and ethnicity-related effects was both sparse and mixed.

Smith, Jr. (2007) suggested that small businesses are not only intrinsically interesting and important but because they are also responsible for approximately two-thirds of this country's net new jobs and are responsible for a disproportionately large number of innovative products and processes, they offer important research opportunities. However, as noted by Smith, the limitation of peer reviewed small business studies presents a major challenge for researchers interested in studying small businesses. According to Headd & Kirchhoff (2009), research on small businesses' growth has focused on proportional growth, net job creation, and business survival while offering a dearth of basic knowledge about firm formation, growth, decline, or closure. Clark et al. (2006) concluded, if small businesses are important to the economic success of this country, then it is time to structure programs for this invaluable segment of the economy. Chapter 3 will present the methodology used for this study.

Chapter 3: Research Method

The problem addressed in this study is that, although the annual cost of the 8 (a) program can be determined, the efficiency, productivity, and equity of the program's benefits among participants are unknown. The purpose of this study was to examine the efficiency (i.e., the percentage of participating firms exiting the program as independently operational firms) and productivity (i.e., the number of firms exiting the program as independently operational firms) as they relate to the costs of administering the 8 (a) program. The research questions for this study are as follows:

Q1. What is the relationship, if any, between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms? The second research question is designed to examine the relationship between the costs of the 8 (a) program and its overall productivity:

Q2. What is the relationship, if any, between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms?
The third and fourth research questions are designed to examine the equity of benefit from the 8 (a) program across gender and race:

Q3. What is the difference, if any, between male and female participants' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

Q4. What is the difference, if any, between various ethnic groups' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

Four null hypotheses were tested and correspond to the four research questions. The null hypotheses and the corresponding alternative hypotheses are as follows:

H1$_0$. There is no statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

H1$_a$. There is a statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

H2$_0$. There is no statistically significant relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

H2$_a$. There is a statistically relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

H3$_0$. There is no statistically significant difference based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

H3$_a$. There is a statistically significant difference based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

H4$_0$. There is no statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

$H4_a$. There is a statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

The current chapter contains a description of the methodology employed to address the four research questions. Initially, the research method and design are described. Participants, materials, and instruments used are discussed in the next sections. The operational definitions of all study variables are then discussed, followed by a description of the collection, processing, and analysis procedures to be followed. The methodological assumptions, limitations, and delimitations as well as ethical issues are discussed, and the chapter ends with a summary of the key points from the chapter.

Research Methods and Design

This study used a nonexperimental quantitative research design. A quantitative research design was the most appropriate design to answer research questions in this study because (a) the variables under study are readily quantifiable and (b) the research questions and hypotheses address relationships between variables and differences between groups. Both relationships between variables (as in the first two research questions) and differences between groups (as in the last two research questions) are best addressed through a quantitative research design. The research method for this study contained both correlational components (for the first two research questions) and causal-comparative components (for the last two research questions).

The data for this study came from SBA documentation and reports. The Business Opportunity Development Reform Act of 1988 [15 U.S.C. 636(j)16(A) and (B)] and Section 7(j)(16)(A) of the Small Business Act require the SBA to provide the U.S.

Congress with annual reports that detail the status of current and former program participants and program achievements and challenges. Each annual report contains data and information highlighting the program's benefits to the economy and to government as well as administrative, managerial, and technical costs. Data from the annual reports from fiscal years 1999 to 2008 (SBA, 2009e) were used to answer research questions in this study.

Annual reports contain total program cost, the percentage of firms exiting the program as independently operational firms, and the overall number of firms exiting the program as independently operational firms. These data were extracted from annual reports and entered into a database for analyses related to the first two research questions. Annual reports also contain information on a participant-by-participant basis regarding the gender and ethnicity of the small business owner. These data were entered into a database for analyses associated with the third and fourth research questions.

Participants

Participants for this study were small business owners from across the U.S. who have successfully completed or participated in the SBA's 8 (a) program. Participating firms include firms owned by females and males and businesses owned by Asian Pacific Americans, Black Americans, Caucasian Americans, Hispanic Americans, Native Americans, Native Hawaiian Americans, Subcontinent Asian Americans, and businesses whose owners do not identify with any of the aforementioned ethnic groups. Table 7 depicts the total number of businesses that completed the 8 (a) program between 1999 and 2009 and the total number of participants between 1999 and 2009. The values for the total number of program participants overlap because many businesses are represented in multiple years. Therefore, the total number of participating firms does not represent 91,059 distinct firms, but rather 91,059 business-years.

Table 7

Graduates and Participants in the 8 (a) Program Between 1999 and 2009

Year	Number of 8 (a) program participants who completed the program (for Research Questions 1 and 2)	Number of 8 (a) program participants (for Research Questions 3 and 4)
1999	339	5,969
2000	348	6,383
2001	389	6,942
2002	356	7,585
2003	718	8,431
2004	625	8,900
2005	421	9,470
2006	368	9,667
2007	396	9,423
2008	537	9,462
2009	347	8,827
Total	4,844	91,059

The values for the number of program completers are mutually exclusive, indicating 4,844 businesses completed the program between 1999 and 2009. Research questions 1 and 2 of this study are based on these 4,844 firms. Over the same time period, 91,059 firms participated in the program, and Research Questions 3 and 4 are based on these firms.

A power analysis was performed using G*Power 3 (Buchner, Erdfelder, Faul, & Lang, 2007) to determine the required sample size for this study. For all power analyses, two-tailed tests, an alpha level of .05, medium effect sizes, and desired power of .80 were specified. The inferential techniques employed in this study are Pearson correlations, logistic regression, and two-factor analyses of variance (as discussed below). For the Pearson correlation, Cohen's (1992) definition of a medium effect being a correlation of .30 was specified, and G*Power indicated that 84 subjects would be required. For an analysis of variance: fixed effects, special, main effects and interaction with two factors (gender and race) and medium effect size estimates of $f = .25$ (Cohen, 1992), $df = (2-1)*(5-1) = 4$, number of groups = 2*5 = 10, G*Power post hoc achieved power for 269 subjects of 0.92. Finally, for the logistic regression analysis the following parameters were input for G*Power: two-tailed test, Pr (Y = 1|X = 1) H_0 = .30, Pr (Y = 1| X = 1) H_1 = .50, alpha = .05, desired power = .80, R^2 for other predictors = 0, binomial distribution, and x parm pi = .5. With these specifications, G*Power indicated that 190 participants would be required to achieve power of .80. The actual sample sizes ranged from 2,989 to 8,446 as discussed in the next chapter.

Materials/Instruments

No single form or instrument was used to collect data for this study. The SBA uses a variety of procedures to track participant information, including surveys, applications, and internal reports. The data used for this study were assembled by the SBA and were extracted from documents and reports provided by the SBA. Each participant in the 8 (a) program completes a survey during each year of participation to report demographic and background characteristics as well as additional information regarding participation in the program. Grants, awards, and contracts (received both from the 8 (a) program and externally) are also tracked by the SBA and included in the reports from which the data used in this study were assembled. A discussion of any data errors appears in the Methodological Assumptions, Limitations, and Delimitations section.

Operational Definition of Variables

This study included six key variables. The first variable is the annual cost of the 8 (a) program. The annual cost was derived from the SBA annual reports on the 8 (a) program and is defined as the sum of two components: program administrative costs and management and technical assistance. This variable served as the predictor variable for the first two research questions in this study.

The second and third variables are the efficiency and productivity of the 8 (a) program. Efficiency and productivity served as the criterion variables in the first and second research questions, respectively. The efficiency of the 8 (a) program was operationalized as the percentage of businesses exiting the 8 (a) program as independently operational firms. Each firm included in the analyses either did or did not exit the program as an independently operational firm, and therefore this is a dichotomous variable (although when averaged, this becomes a proportion or an efficiency rate). The productivity of the 8 (a) program was operationalized as the number of businesses exiting the 8 (a) program as independently operational firms. This criterion variable is simply the raw number of firms exiting the program with an independently operational status. For each individual firm, this is a dichotomous variable—they either did or did not exit as an independently operational firm. Summed across firms, this number is representative of the productivity of the 8 (a) program.

The third research question involves a comparison between genders in terms of whether or not a participating business receives government contracts as well as the dollar value of government contracts. Gender is defined through self-report from the program's participants as either male (coded as 0) or female (coded as 1). Whether or not a business received government contracts was defined as either yes (coded as 1) or no (coded as 0). The dollar value of government contracts for each business in each year is defined as the total amount of funding received by the business through government contracts. The fourth research question involved the same criterion variables as the third question (whether or not a government contract was received and the dollar value of government contracts) but included ethnicity rather than gender. The SBA records ethnicity as Asian-Pacific American, Black, Caucasian, Hispanic, Native American, Other, or Subcontinent Asian American. This coding was used in this current study unless the frequency of one or more groups is determined to be too low, in which case, certain groups were combined.

Data Collection, Processing, and Analysis

Data for this quantitative study was collected from a variety of SBA documentation for content analysis. The primary resources for the data in this study consist of the annual reports from the SBA to the U.S. Congress. These reports include the annual cost of the program and the number of businesses exiting the program in a variety of situations (including exiting the program as an independently operational firm).

These data were assembled into an SPSS database for analysis and were used to address the first and second research questions. The SBA website also provides downloadable, publicly available spreadsheets consisting of the race and gender of the business owner as well as the dollar value of government contracts received for each participating business each year. These spreadsheets were downloaded and converted into an SPSS data file for the data analyses performed for the third and fourth research questions.

The data analyses for this study consisted of both descriptive and inferential statistical techniques. Initially, descriptive statistics were computed for all study variables. Inferential analyses were then performed to address the four research questions of this study. Descriptive statistics were used to describe and summarize information about the 8 (a) business population while inferential analyses was used to make inferences about the sample drawn from this population. Two-tailed tests and an alpha level of .05 were used for all inferential analyses.

The first research question of this study is as follows: What is the relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms? The corresponding null hypothesis is $H1_0$: There is no relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms. The criterion variable for this null hypothesis is whether a firm exited the program as an independently operational firm, a dichotomous variable. Therefore, this null hypothesis was tested using logistic regression analysis with firm exit status (independently operational or not) as the criterion variable, and annual program cost as the predictor variable.

The second research question of this study is as follows: What is the relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms? The null hypothesis for this research question is $H2_0$: There is no relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms. This null hypothesis was tested using annual data, not individual firm data. That is, for each year under study there are two values: the cost of the 8 (a) program in that year (the predictor variable) and the number of firms exiting as independently operational firms (the criterion variable). This null hypothesis was tested by computing the Pearson correlation between these two variables.

The third research question is the following: Do male and female participants benefit equally from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts? The corresponding null hypothesis is $H3_0$: Male and female participants benefit equally from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts.

The fourth and final research question of this study is the following: Do participants of various ethnic groups benefit equally from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts? The null hypothesis for the final research question is $H4_0$: Participants of various ethnic groups benefit equally from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts. To test the third and fourth null hypotheses of this study, one logistic regression analysis (for the effects of gender and race on whether or not a government contract was received) and one analysis of variance was performed (for the effects of gender and race on the dollar value of government contracts). Specifically, the effects of gender and race on the dichotomous outcome variable of whether or not a government contract was received was determined using a logistic regression analysis. Gender is a dichotomous variable and was coded as 0 = *male*, 1 = *female*. Race was coded with dummy variables indicating Hispanic individuals (coded as 0 = *not Hispanic*, 1 = *Hispanic*), Black Americans (coded as 0 = not *Black American*, 1 = *Black American*), other races (coded as 0 = *not other race*, 1 = *Asian Pacific Americans, Native Americans, Native Hawaiian Americans, or Subcontinent Asian Americans*) with Caucasian Americans as the reference category. Effects of gender and race on the continuous outcome variable of the dollar value of government contracts was determined with a two-factor (gender and race) analysis of variance.

Methodological Assumptions, Limitations, and Delimitations

Two assumptions were made in this study. The first assumption was that the data collected from the SBA annual reports and website are accurate. It is possible that errors or omissions in the data could affect the current study, but likely that the data have a high level of accuracy. The second assumption was that the measures of productivity and efficiency used in this study would be adequate. Specifically, the percentage of exiting firms that are independently operational firms will be the measure of efficiency, and the total number of exiting firms that are independently operational firms will be the measure of productivity. Other measures of these variables could have been used in this study, such as the total value of government contracts as a measure of the productivity of the 8

(a) program. However, the measures selected are direct and logical measures of the constructs of interest.

The primary limitation of this study is there may be recording, coding, or documentation errors made by SBA staff that result in errors in the data used for the current study. As noted above, one of the assumptions made in this study was that the data used in the study are accurate and complete, and it is likely that the data possess a high degree of accuracy and completeness. However, clerical errors or other errors in reporting, recording, or transmitting data are a possible limitation of the current study.

The primary delimitation of this study is that some of the study data (e.g., a firm's status upon exiting the program) is self-reported by participating firms, and a substantial portion of firms do not complete the exit survey. For example, 34 out of 368 exiting firms did not return the exit survey in 2006 (9.2%). The results related to the first two research questions might not generalize to exiting firms that did not complete the exit survey. If there are substantial differences between firms for which the exit survey was returned and firms for which the exit survey was not returned, this may bias results and limit the generalizability of the findings from this study. Data for the third and fourth research questions, however, are based on internal SBA records and therefore have a higher degree of generalizability because they include all participating firms.

Ethical Assurances

Prior to conducting this study, Northcentral University Institutional Review Board (IRB) approval was received. Ethical concerns were limited in the current study because all data used for the study are archival and publicly available. No new data collection was conducted. However, the data used for this study consist of information on individual, named businesses, and it is possible that this information could be used for some purpose other than that stated in this research. To remove this possibility, no information on individual firms was disseminated in any form during the course of conducting this study. Furthermore, because a firm's name is not necessary for the current study, this information was deleted from all downloaded and extracted files prior to conducting the data analysis.

Summary

This chapter contained a description of the research methodology chosen for this study. Initially, the problem statement, purpose of the study, and research questions were reviewed. The quantitative research design was discussed and justified, and the causal-comparative and correlational aspects of this design were specified. The participants in this study, namely those businesses that are part of the SBA's 8 (a) program, were described, as were the data sources for this study. Each variable to be used was operationally defined. The data collection and processing steps were discussed, and the specific analytic procedures chosen to test the null hypotheses were presented. Finally, the methodological assumptions, limitations, and delimitations were presented, and ethical concerns were discussed. The next chapter will contain the results of the analyses performed to address the four research questions of this study.

Chapter 4: Findings

The problem addressed in this study was that without an understanding of the efficiency and productivity of the 8 (a) Business Development Program, both overall and for various gender and ethnic groups, decisions about sustaining 8 (a) program funding are difficult to make. Therefore, the purpose of this nonexperimental quantitative study was to examine program outcomes as they relate to the costs of administering the 8 (a) program. Four research questions were posed:

Q1. What is the relationship, if any, between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms?

Q2. What is the relationship, if any, between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms?

Q3. What is the difference, if any, between male and female participants' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

Q4. What is the difference, if any, between various ethnic groups' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

The current chapter presents findings from this study. Initially, results of the statistical analyses are presented; then, these findings are evaluated in the context of past research in this area. The current chapter ends with a summary of key results from this study.

Results

This section contains results from the data analysis performed in this study. Initially, descriptive statistical results are presented, followed by an examination of results for each research question.

Descriptive analyses. The first and second research questions of this study dealt with 8 (a) program costs and both the number and percentage of firms exiting as independently operational. Descriptive statistics for annual program costs, the number of firms exiting as independently operational, and the percentage of firms exiting as independently operational are reflected in Table 8. The 8 (a) program's costs ranged from $24,394,483 (in 1999) to $57,380,000 (in 2009). The percentage of firms exiting the 8 (a) program as independently operational ranged from 65.4% in 2008 to 94.2% in 2009. The number of firms exiting the 8 (a) program as independently operational ranged from only 83 in 2008 to 621 in 2009. Figures 1, 2, and 3 graphically depict information for the 8 (a) program's total costs for fiscal years 1999 through 2009, as well as the number of firms exiting the 8 (a) program as independently operational and the percentage of firms exiting the 8 (a) program as independently operational for the same period.

Table 8

*Descriptive Statistics for Program Costs, Number of Firms Exiting as Independently Operational, and Percentage of Firms Exiting as Independently Operational (*N *= 3,320)*

Year	Total 8 (a) Program Cost	Firms Exiting as Independently Operational	Total Number Exiting	Percentage Independently Operational
1999	24,394,483	214	232	92.2
2000	24,441,229	182	216	84.3
2001	24,470,247	279	310	90.0
2002	45,212,000	143	164	87.2
2003	36,177,829	202	226	89.4
2004	39,570,455	323	420	76.9
2005	34,502,896	238	274	86.9
2006	31,870,967	282	334	84.4
2007	44,540,000	303	358	84.6
2008	56,561,000	83	127	65.4
2009	57,380,000	621	659	94.2

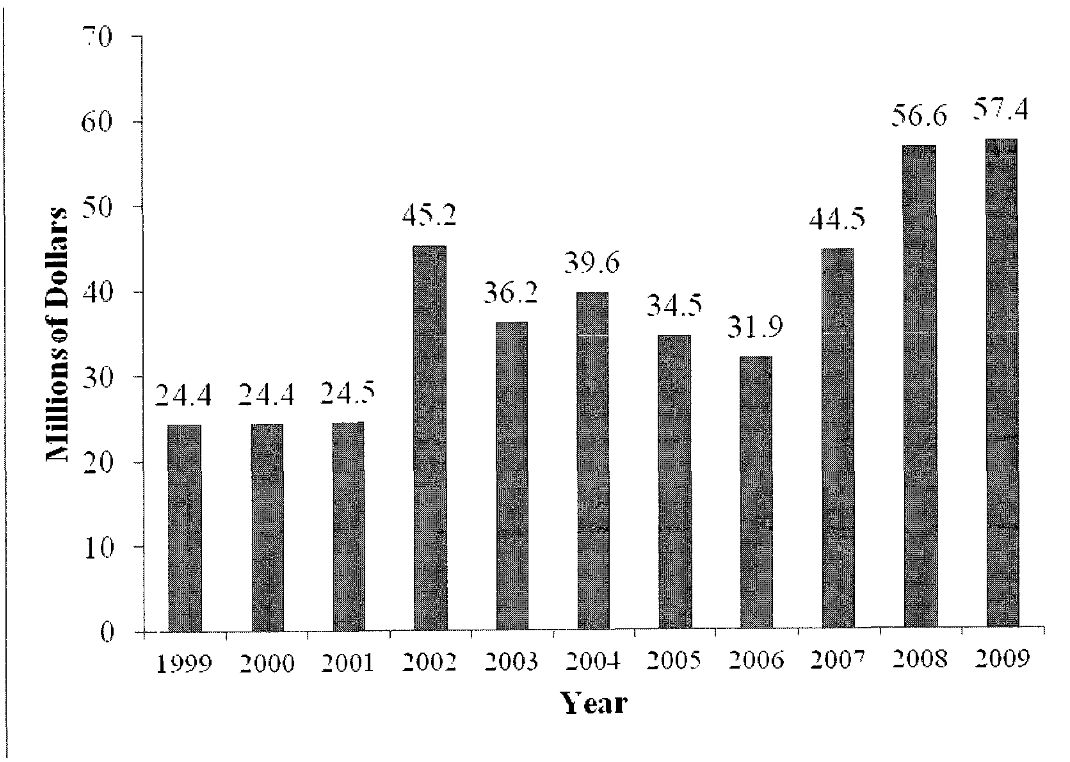

Figure 1. *Total costs of the 8 (a) program as a function of year.*

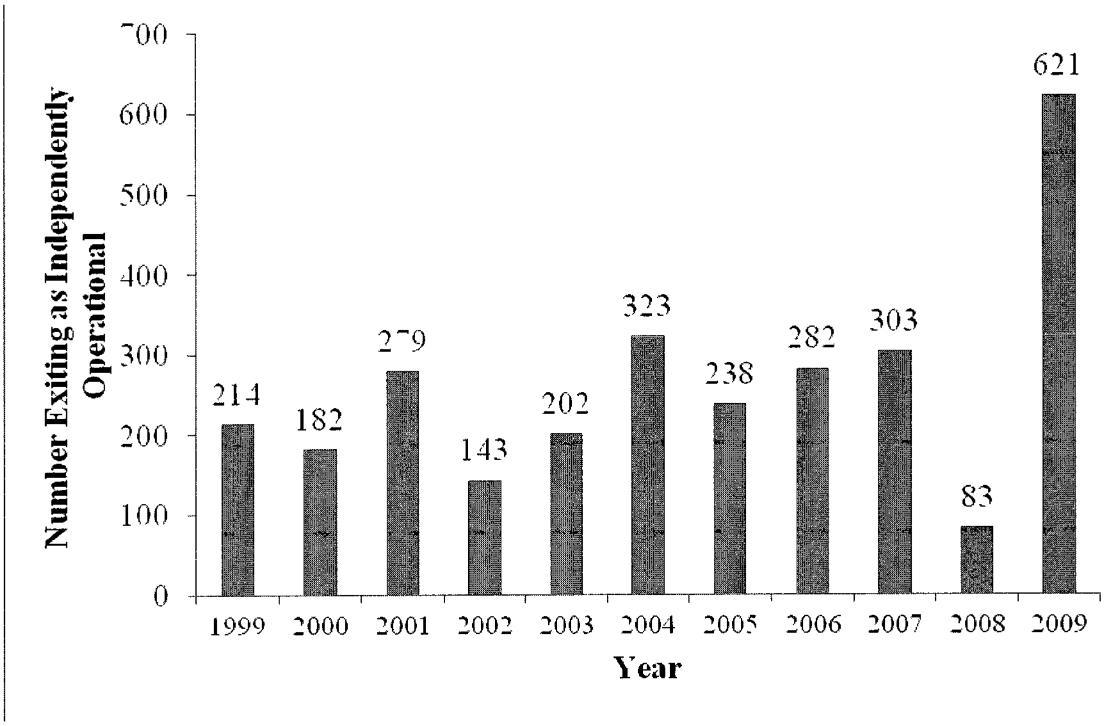

Figure 2. *Number of firms exiting the 8 (a) program as independently operational firms as a function of year.*

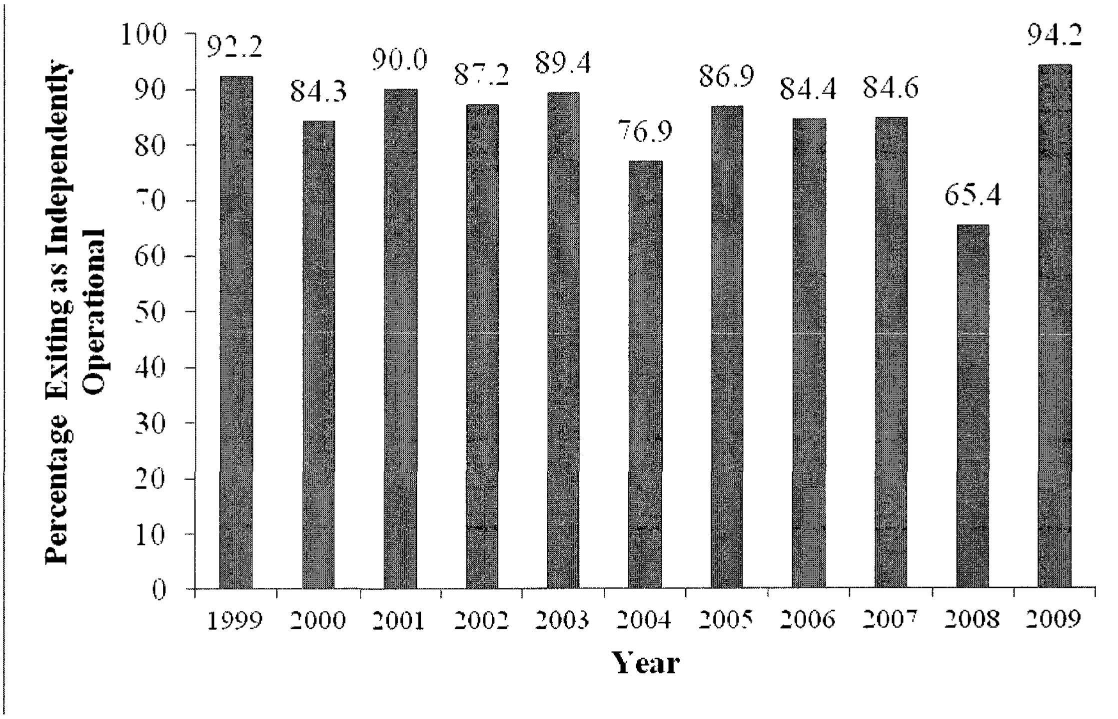

Figure 3. *Percentage of firms exiting the 8 (a) program as independently operational firms as a function of year.*

The third and fourth research questions of this study dealt with the effects of the gender and the ethnicity of program participants and the receipt of and dollar value of government contracts received. Data from fiscal year 2009 was used for this analysis consisting of 8,446 firms. Table 9 depicts the number and percentage of each gender and ethnic subgroup who received government contracts. The most successful gender and ethnic subgroup consisted of Caucasian females; 41.8% of firms headed by Caucasian females received a government contract. In contrast, firms headed by Black females had the lowest government contract success rate, with only 31.4% of these firms receiving a government contract in fiscal year 2008. Overall, 35.4% of firms received a government contract, with firms headed by females (36.0%) slightly more successful than firms headed by males (35.0%). Firms headed by Caucasians (41.6%) were most successful, followed by firms headed by Hispanics (37.3%), with firms headed by Black owners having the lowest government contract success rate (31.6%).

Table 9

*Descriptive Statistics for Receipt of Government Contracts as a Function of Gender and Ethnicity (*N *= 8,446)*

	Female		Male		Total	
Ethnicity	Frequency	Percent	Frequency	Percent	Frequency	Percent
Caucasian	225	41.8	34	40.0	259	41.6
Black	323	31.4	652	31.8	975	31.6
Hispanic	217	35.7	508	38.0	725	37.3
Other	382	37.7	648	36.4	1030	36.8
Total	1147	36.0	1842	35.0	2989	35.4

The average dollar value of government contracts as a function of gender and ethnicity is reflected in Table 10. Only firms that received a government contract are included in these analyses (N = 2,989). The average dollar value of government contracts for these firms was $3,486,463 ($SD$ = $8,500,047). The dollar value of most contracts issued to 8 (a) firms was very small but a few 8 (a) firms received very large dollar value contracts and that resulted in standard deviations being significant relative to the means. In fact, the skewness and kurtosis of the distribution of dollar value of government contracts were 12.86 and 274.01, respectively, and that indicated drastic non-normality and meant that the use of the planned ANOVA for the third and fourth research questions was untenable. Therefore, a log transformation was applied to the dollar values as recommended by Howell (1997, p. 325). The resulting values of skewness and kurtosis were -.42 and -.25, respectively, indicating approximate normality. Therefore, all subsequent analyses performed using dollar values are based on the log of dollar values.

Table 10

Descriptive Statistics for Dollar Value of Government Contracts as a Function of Gender and Ethnicity (N *= 2,989)*

	Female		Male		Total	
Ethnicity	*M*	*SD*	*M*	*SD*	*M*	*SD*
Caucasian	$4,138,364	$9,024,324	$5,687,435	$11,580,224	$4,341,717	$9,387,943
Black	$2,092,532	$4,290,963	$2,757,095	$5,942,404	$2,536,937	$5,457,734
Hispanic	$3,798,303	$7,751,921	$3,772,229	$10,630,371	$3,780,034	$9,852,045
Other	$3,804,915	$9,740,893	$4,057,125	$9,330,704	$3,963,587	$9,480,972
Total	$3,386,860	$8,039,702	$3,548,484	$8,776,082	$3,486,463	$8,500,047

Table 11 reflects the means and standard deviations of the log of dollar values for each subgroup defined by gender and ethnicity. The highest mean was for firms headed by Caucasian females ($M = 13.67$, $SD = 2.18$) while the lowest was for firms headed by Black females ($M = 13.02$, $SD = 2.07$).

Table 11

Descriptive Statistics for Log of Dollar Value of Government Contracts as a Function of Gender and Ethnicity (N = *2,989)*

	Female		Male		Total	
Ethnicity	*M*	*SD*	*M*	*SD*	*M*	*SD*
Caucasian	13.67	2.18	13.24	2.83	13.61	2.28
Black	13.02	2.07	13.11	2.18	13.08	2.14
Hispanic	13.49	2.19	13.40	2.14	13.43	2.15
Other	13.35	2.26	13.40	2.36	13.38	2.32
Total	13.35	2.19	13.29	2.25	13.31	2.22

Research question 1. The first research question of this study was: What is the relationship, if any, between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms? The corresponding null and alternative hypotheses were:

$H1_0$. There is no statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

$H1_a$. There is a statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

The criterion variable for this null hypothesis is whether or not a firm exited the program as an independently operational firm, a dichotomous variable. Therefore, this null hypothesis was tested using logistic regression analysis with firm exit status (independently operational or not) as the criterion variable, and annual program cost as the predictor variable. No assumptions about the predictor variables are made in logistic regression and it was assumed that the criterion variable is dichotomous with values of 0 and 1. This was the case in the current study with the criterion variable coded as 0 = *exited not independently operational* and 1 = *exited independently operational.* An assumption was made that observations are independent because each firm appeared once and only once in the database because each firm exited the 8 (a) program only once.

A total of 3,320 cases were available for the logistic regression analysis covering all firms exiting the 8 (a) program between 1999 and 2009. The predictor variable in this analysis was 8 (a) program costs in the year of firm exit in millions of dollars (e.g., 24,394,483 was rescaled to be 24.394483), and the criterion variable is whether the firm exited the program as independently operational or not. Overall, the logistic regression model was statistically significant, $\chi^2(1) = .46, p = .496$. The predictor variable, 8 (a) program cost, was not statistically significant, $B = .00, p = .497$, Exp(B) = 1.00. The Exp(B) value of 1.00 indicated the odds of exiting the program as an independently operational firm did not differ based on program costs. Based on this analysis, the null hypothesis was not rejected, and it was concluded that there was not a statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

Research question 2. The second research question was: What is the relationship, if any, between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms? The null and alternative hypotheses for this research question were:

$H2_0$. There is no statistically significant relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

$H2_a$. There is a statistically significant relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

This null hypothesis was tested using annual data. For each year under study there were two values: the cost of the 8 (a) program in that year (the predictor variable) and the number of firms exiting as independently operational firms (the criterion variable). This null hypothesis was tested by computing the Pearson correlation between these two variables. This correlation was $r = .19, p = .585$. Therefore, the second null hypothesis was not rejected and it was concluded that there was no statistically significant relationship between the cost of the 8 (a) program and the number of firms exiting the program as independently operational firms.

Research questions 3 and 4. The third research question of this study was: What is the difference, if any, between male and female participants' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts? The fourth and final research question of this study was: What is the difference, if any, between various ethnic groups' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts? The corresponding null and alternative hypotheses for these two research questions were:

> **H3$_0$**. There is no statistically significant difference based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.
>
> **H3$_a$**. There is a statistically significant differences based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.
>
> **H4$_0$**. There is no statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.
>
> **H4$_a$**. There is a statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

To test the third and fourth null hypotheses, one logistic regression analysis (for the effects of gender and ethnicity on whether or not a government contract was received) and one analysis of variance (for the effects of gender and ethnicity on the dollar value of government contracts) were performed. Gender is a dichotomous variable and was coded as 0 = *male*, 1 = *female*. Ethnicity was coded with dummy variables indicating Hispanic individuals (coded as 0 = *not Hispanic*, 1 = *Hispanic*), Black Americans (coded as 0 = *not Black American*, 1 = *Black American*), other ethnicities (coded as 0 = *not other* *ethnicity*, 1 = *Asian Pacific Americans, Native Americans, Native Hawaiian Americans, or Subcontinent Asian Americans*) with Caucasian Americans as the reference category.

The effects of gender and ethnicity on the dichotomous outcome variable of whether or not a government contract was received were determined using a logistic regression analysis. Table 12 reflects results from this analysis. Overall, the logistic regression model was statistically significant, $\chi^2(4) = 35.08$, $p < .001$, indicating that the model with gender and ethnicity as predictors of whether or not a participating 8 (a) firm received a government contract was statistically significant. Individually, gender was not statistically significant, $B = -.01$, $p = .895$, Exp(B) = .99, and that is consistent with the descriptive results presented earlier that the percentage of firms that received government contract that were headed by males and the percentage of firms that received government contracts that were headed by females were similar.

Table 12

Results from the Logistic Regression Analysis with Ethnicity and Gender as Predictors of Receipt of a Government Contract (N = 8,446)

Effect	*B*	SE_B	Wald	*df*	*p*	Exp(*B*)
Ethnicity			34.15	3	<.001	
Black	-.43	.09	21.41	1	<.001	.65
Hispanic	-.18	.10	3.54	1	.060	.83
Other ethnicity	-.20	.09	4.67	1	.031	.82
Gender	-.01	.05	.02	1	.895	.99
Constant	-.33	.09	13.32	1	<.001	.72

Notes. Receipt of a government contract was coded as 0 = no government contract received, 1 = government contract received; for ethnicity, Caucasian was the reference group; for gender, male was the reference group. Model $\chi^2(4) = 35.08, p < .001$.

Overall, ethnicity was statistically significant, Wald = 34.15, $p < .001$. With Caucasian as the reference category, results for the individual ethnicity effects indicated that the likelihood of receiving a government contract was lower if the firm was headed by a Black individual, $B = -.43, p < .001$, Exp(*B*) = .65, or headed by an individual of some other ethnicity, $B = -.20, p = .031$, Exp(*B*) = .82. The Exp(*B*) values indicate that, when compared to firms headed by Caucasians, firms headed by Blacks were only .65 times as likely to receive a federal government contract and firms headed by individuals of other ethnic groups were only .82 times as likely to receive a federal government contract.

Effects of gender and ethnicity on the continuous outcome variable of the log of the dollar value of government contracts were determined with a two-factor (gender and ethnicity) analysis of variance. Table 13 reflects results from this analysis. Levene's test of the equality of variances was performed using an alpha level of .01 due to the large sample size and consequent high power of this test. The test was not statistically significant, $F(7, 2{,}981) = 2.56$, $p = .012$, indicating that the assumption of homogeneity of variances was met. The main effect for gender was not statistically significant, $F(1, 2{,}981) = .62$, $p = .432$, indicating that males and females did not differ in terms of the log of dollar values of government contracts received. The effect of ethnicity, however, was statistically significant, $F(3, 2{,}981) = 4.64$, $p = .003$. Tukey HSD follow up tests indicated that firms headed by Blacks had a lower log of dollar value of contracts received than firms headed by Hispanics, $p = .008$, Caucasians, $p = .003$, and other ethnicities, $p = .012$. Firms headed by Caucasians, Hispanics, and those of other ethnicities did not differ from each other. The interaction between gender and ethnicity was not statistically significant, $F(3, 2{,}981) = .59$, $p = .624$.

Table 13

*Results from the ANOVA with Ethnicity and Gender as Predictor Variables and the Log of the Dollar Value of Government Contracts Received as the Criterion Variable (*N = *2,989)*

Effect	Sum of Squares	*df*	Mean Squares	*F*	*p*
Ethnicity	68.53	3	22.84	4.64	.003
Gender	3.05	1	3.05	.62	.432
Ethnicity by Gender	8.68	3	2.89	.59	.624
Error	14687.74	2981	4.93		
Total	544612.59	2989			

Based on results from the logistic regression analysis and the linear regression analysis performed for the third and fourth research questions, both the third and fourth null hypotheses of this study were rejected. Therefore, it was concluded that there was a statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts. Specifically, firms headed by Blacks or individuals of other ethnic groups were less likely to receive a government contract than those headed by Caucasians, and firms headed by Blacks tended to have a lower log of the dollar value of contracts received than firms headed by Hispanics, Caucasians, and other ethnicities.

Evaluation of Findings

The problem addressed in this study was that without an understanding of the efficiency and productivity of the 8 (a) program, both overall and for gender and ethnic groups, decisions about sustaining 8 (a) program funding are difficult to make and that is especially true in a turbulent domestic economic environment. Therefore, the purpose of this nonexperimental quantitative study was to examine program outcomes as they relate to the cost of administering the 8 (a) program. Over the ten-year period of 1999 through 2009, annual costs of administering the 8 (a) program ranged from a low of $24,394,483 to $57,380,000.

The SBA asserts that the primary benefit of the 8 (a) program to this nation's economy are incremental gains made by socially and economically disadvantaged groups through their development of independently operational, profitable, sustainable business ventures. Research questions 1 and 2 examined the cost of the 8 (a) program as it relates to the percentage of firms and the number of firms exiting the program as independently operational during fiscal years 1999 through 2009. The percentage of firms exiting the 8 (a) program as independently operational provides insight as to how efficiently the program is being operated while the number of firm exiting the program as independently operational provides insight regarding the program's productivity. Results of this study suggest that there is not a statistically significant relationship between the cost of the 8 (a) program and the percentage nor the number of firms exiting the program as independently operational. While only 76.9% and 65.4% of firms exited the 8 (a) program as independently operational in fiscal years 2004 and 2008, respectively, this study's findings suggest that the 8 (a) program is productive and is operating efficiently.

During fiscal year 2004, 144 firms were involuntarily terminated from the 8 (a) program while 61 firms voluntarily withdrew from the program. In fiscal year 2008, 537 firms were involuntarily terminated from the 8 (a) program while 228 firms voluntarily withdrew from the program. The primary reason firms were terminated from the 8 (a) program was business owners' failure to comply with reporting requirements (SBA, 2009f). Although hundreds of businesses voluntarily or involuntarily exit the 8 (a) program each year, as reflected in Table 14, the number of businesses actually graduating from the program as successfully completing all nine years of the program is relatively small. To graduate from the 8 (a) program, a firm's owner must have successfully completed both the developmental and the transitional phases of the 9-year program or 8 (a) program administrators must have determined that a firm's owners successfully and substantially completed all established targets, objectives, and goals in its business plan and demonstrated the ability to successfully complete in the marketplace without assistance and resources provided through the 8 (a) program (U.S. GAO, 2008).

Table 14

Number of Businesses Graduating from the 8 (a) Program

Fiscal year	Graduated
2009	2
2008	12
2007	11
2006	*12
2005	*18
2004	*11
2003	1
2002	1
2001	1
2000	2
1999	*1

**Note:* Early Graduation (Participated less than 9 years)

Despite the 8 (a) program being in operation since 1968, the SBA's Office of the Inspector General's *Fiscal Year 2004 Most Serious Management Challenges Facing the SBA* (2009d) report stated that the SBA had not made any substantial progress in developing criteria that clearly defines what constitutes an 8 (a) firm's success and that persistent inefficiency in the program brings into question when a firm qualifies to graduate from the program or to exit the program as independently operational. Additionally, the SBA's Office of Inspector General's 2004 *Most Serious Management*

Challenges Facing the Small Business Administration's report emphasized the need to redefine the 8 (a) program's economically disadvantaged criteria using objective, quantitative, qualitative, and other criteria. While the number and the percentage of firms reportedly exiting the 8(a) program as independently operational suggest that the program is both productive and is operating efficiently, the U.S. Office of Management and Budget's (2005) assessment of the 8 (a) program suggest that the 8 (a) program is redundant and duplicative of other Federal, state, local, and private business development programs and its design presents major flaws that prevent it from being effective and efficient. The design of the 8 (a) program was beyond the scope of this study and presents an opportunity for further research.

The use of public procurement as a vehicle for implementing various socioeconomic preference policies has a long history and federal, state, and local governments often use purchasing power as a tool to achieve certain social and political purposes (Qiao, Thai, & Cummings, 2009). According to Yuhua, Thai, and Cummings, small business preferences, the largest procurement preferences program in the U.S., illustrates how public procurement is used to improve competitiveness, with the range of social goals being the promotion of fair labor conditions and wages, remedying past discriminations, sustaining economic development, and protecting the environment. Research questions 3 and 4 examined effects of gender and ethnicity of the 8 (a) program's participants as they relate to dollar value of government contracts awarded. Research question 3 of this study was: What is the difference, if any, between male and female participants' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts? This study found that, individually, gender was not statistically significant, which is consistent with descriptive results presented earlier that the percentage of firms that received government contracts that were headed by males and the percentage of firms that received government contracts that were headed by females were similar. Research question 4 asked: What is the difference, if any, between various ethnic groups' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts? Results of this study suggest that there is a statistically significant difference, based on ethnicity, for the 8 (a) program in terms of whether or not an individual receives government contracts and the dollar value of government contracts awarded. This study's findings suggest that Caucasian females were the most successful gender and ethnic group of 8 (a) participants with 41.8% of firms headed by Caucasian females receiving a government contract. This study also found that 8 (a) firms owned and operated by Black participants, and Black females in particular, were less likely to receive government contracts and the value of a contract awarded, in terms of the dollar amount, was likely to be lower than contracts awarded to 8 (a) firms owned by Caucasian, Hispanic, and Other participants. A study of why 8 (a) firms headed by Black females did not fare as well as 8 (a) firms headed by owners of other ethnicities was beyond the scope of this study but highlights another area of the program that warrants additional study.

Smith & Fernandez (2010) examined equity in federal contracting and explored the link between minority representation in leadership roles in federal agencies and federal procurement decisions. Smith and Fernandez proposed a theory of representative bureaucracy as a way to reconcile democracy with the reality of the contemporary policy process in which unelected officials are the principal decision makers. Smith and Fernandez's theory of representative bureaucracy posit that if bureaucracy sufficiently represents the values and interest of the public it serves, then, it can be reconciled with the political reality of the policy process. In the case of the SBA's 8 (a) program, representative bureaucracy implies that increasing minority representation in leadership positions would result in an increased proportion of federal contracts being awarded to small minority-owned businesses.

The problem most often cited by minority entrepreneurs is the lack of business training (Hisrich & Bruch, 1986; Mick & Green, 2004). However, according to Mick and Green (2004), the impact of long-term business assistance and resource programs in the U.S. has rarely been studied. Research conducted on minority entrepreneurship and public policy found that over ten percent of all minority businesses sell to at least one level of government - federal, state, or local, and research and that minority business that relying heavily (more than 25% of revenue) on government sales are more likely to go out of business (Mick & Green, 2004). According to Bates and Williams (1996), government contracting has the potential to negatively impact a minority business, in part, because such firms may be too inexperienced to handle large contracts and because these firms could be fronts for large and/or non-minority firms wishing to do business with the government but ineligible for programs such as the 8 (a) program.

The U.S. Small Business Administration has a worthy public policy program, the 8 (a) program, which is not living up to its original intent when assisting small disadvantaged businesses with government contracting (Mick & Green, 2004). Mick and Green (2004) proposed that disadvantaged businesses need assistance in the contracting world through strong enforcement of current disadvantaged business contracting goals and policies. Clark and Moutray (2004) asserted that acquisition reforms legislated in the 1990s had both positive and negative effects on small business procurement (e.g., authorized multiple award contracts that tend to hurt small businesses because they do not typically reach the size of required to fulfill multiple-award contracts). Additionally, the Clinger-Cohen Act of 1996 allows contracting and procurement personnel credit cards to purchase up to $2,500 in goods and services. However, because the Clinger-Cohen Act of 1996 did not limit such purchases to small businesses, Clark and Moutray suggested that small business contracting opportunities have been limited.

While the original language of Section 8 (a) of the Small Business Act did not require the SBA to focus its efforts on assisting businesses owned by minorities, President Richard Nixon issued an executive order imploring the SBA to consider the needs and interests of minority-owned small businesses. Moreover, President Nixon's executive order gave the Secretary of Commerce the authority to implement federal policy supporting minority-owned and operated businesses, to provide technical and management assistance to minority-owned and operated small businesses, and to coordinate federal contracting activities between all federal departments to aid in the development of such businesses. Noon (2009) suggested that racial preferences in government procurement has been used around the world by nations with histories of racial oppression and discrimination and government affirmative action type programs have commonly been used to mitigate such inequities. Smith et al (2004) suggested that few programs have been subjected to the level of cynicism and scrutiny as those labeled as entitlement or set-aside programs. While some social programs have been criticized because they are viewed as benefitting persons who have not made their fair share of contributions to federal coffers, Smith posited that the 8 (a) program is criticized because it is viewed as benefitting specific groups of people, principally, women and minorities, to the virtual exclusion of white males. There are various domestic socioeconomic and political goals that preferential programs [such as the 8 (a) program] aim to achieve (McCrudden, 2007). However, empirical research on the impact of procurement programs is limited (Yuhua, Thai, & Cummings, 2009).

Summary

Chapter 4 presented results of this nonexperimental quantitative study of the SBA's 8 (a) program. Initially, descriptive statistical results were presented, followed by an examination of results for each research question. Results were interpreted in relation to findings of similar studies and theories that focused on the role of government in small business development. Chapter 5 will discuss implications of this study's findings and will suggest recommendations for future studies.

Chapter 5: Implications, Recommendations, and Conclusions

Chapter 5 is presented in three parts, beginning with a brief review of the problem statement, purpose of this study, methodology used, limitations of this study, and ethical dimensions of this study. The second part of Chapter 5 focuses on implications of this study. Each research question is individually presented and discussed, including how limitations of this study may have affected the interpretation of results. The third part of Chapter 5 presents recommendations for future research. Key points are summarized in the conclusion.

As pressure to reduce the size of the federal government and expand private sector and non-government involvement in social type programs increases, the need to justify public spending and to ensure government funded interventions are achieving their intended objectives is also increasing (Blomquist, 2003). The problem addressed in this study is, without an understanding of the efficiency and productivity of the 8 (a) business development program, both overall and for various gender and ethnic groups, decisions about sustaining 8 (a) program funding are difficult to make. One of the goals of the 8 (a) program is to increase the number of women-owned and minority-owned businesses successfully competing in federal and non-federal marketplaces. Gender and ethnicity of small business owners are at the core of 8 (a) program policies and SBA administrators and managers measure the program's success in terms of how well it meets needs of those owners. The percentage and the number of business owners awarded federal contracts for products and services and exiting the program as independently operational are indicators of how well the 8 (a) program is achieving its mission and goals.

The purpose of this nonexperimental quantitative study was to examine program outcomes as they relate to costs of administering the 8 (a) program. Predictor variables in this study are program costs, gender, and ethnicity. Criterion variables are the percentage of participating firms exiting the program as independently operational firms, the number of firms exiting the program as independently operational firms, whether or not a owners of 8 (a) firms received federal government contracts, and the dollar value of federal government contracts awarded. No single form or instrument was used to collect data for this study. Data for this study was collected from the SBA's annual reports to Congress that contain the 8 (a) program's costs, the percentage of firms exiting the program as independently operational, and the number of firms exiting the program as independently operational. The data analyses for this study consisted of both descriptive and inferential statistical techniques. Initially, descriptive statistics were computed for all study variables. Inferential analyses were then performed to address the four research questions of this study. Descriptive statistics were used to describe and to summarize information about the 8 (a) business population while inferential analyses was used to make inferences about the sample drawn from this population. Power analyses were conducted specifying two-tailed tests, alpha levels of .05, and medium effect sizes.

This study was limited by several factors. Types of literature available on the 8 (a) program is very limited with the overwhelming percentage of available literature being studies and reports conducted internally by SBA managers and subcontractors or articles written by individuals who are either strongly against or strongly in favor of the SBA and its 8 (a) program. Another limitation of this study was the timeliness of literature on the 8 (a) program, similar programs, and the SBA. The 8 (a) program has been the focus of dissertations and peer reviewed studies but those studies are more than 5 years old. Studies of programs similar to the 8 (a) program that focus on women and minority business owners and training them to develop successful businesses were also found to be limited in scope and dated. Therefore, the depth of research available for this study was limited in terms of current and scholarly studies. Accuracy of data and information from SBA reports also limited this study because SBA administrators, managers, and researchers continue to emphasize the persistent lack of ability to ensure accuracy of data and other information being reported by former 8 (a) business owners. Similarly, collecting quantitative and qualitative information from current 8 (a) business owners has been problematic for SBA managers because many owners neglect to submit annual updates on the status of their small business. Results of this study are also limited by the integrity of contract awards data reported by SBA administrators and managers because, over the years, many 8 (a) set-aside contracts have been awarded to firms that did not meet 8 (a) eligibility requirements but those contracts were coded as being awarded to qualified 8 (a) business owners. Miscoding of the size of businesses receiving 8 (a) set-aside contracts is a problem that has been acknowledged by the SBA's administrators and managers in their annual management and performance challenges reports.

Integrity of figures presented in 8 (a) annual reports is also questionable because of errors observed in reports while conducting this study. For example, for fiscal year 2004, SBA figures do not add up correctly. The total cost reported for headquarters and field operations should be $34,944,546, not $26,944,505 which leaves $8,000,041 unaccounted for in the SBA's 8 (a) fiscal year 2004 annual report. The date preceding figures for fiscal year 2004 is also inaccurate in that it reflects that the report is for the previous fiscal year. Similarly, SBA administrative costs figures for fiscal year 2005 do not add up correctly. The total for the SBA's headquarters and field operations should be $31,387,010, not $25,137,512. The discrepancy in reported figures results in $6,249,498 in costs that is unaccounted for in the SBA's FY2005 8 (a) annual report. Additionally, each annual report to Congress from fiscal year 1999 through fiscal year 2008 included data on the number of personnel assigned to the SBA's headquarters' office and field offices for the 8 (a) program. However, for fiscal year 2009, personnel information is not available in the SBA's annual 8 (a) report and the overall cost and administrative costs are identical to those reported for fiscal year 2008. It is not clear whether the duplication of costs and omission of personnel costs are errors or are intentional. For fiscal years reviewed for this study, 1999 – 2009, SBA reports reflect low annual survey response rates, as high as a 67% nonresponse rate for fiscal year 2003. Low response rates raise questions about SBA administrators and managers assertion that the survival rate for 8 (a) businesses is greater than the survival rate for small non-8 (a) businesses. Moreover, low response rates to its annual 8 (a) business surveys resulted in the SBA relying on data it collected from Dun and Bradstreet (D&B), the U.S. Department of Labor (DOL), and the Internal Revenue Service (IRS) when preparing annual reports for fiscal years 2006 through 2009 on the status of current and former 8 (a) businesses. However, whether all former and existing 8 (a) business owners report their information to D&B, DOL, or to the IRS is unknown and beyond the scope of this study.

Prior to conducting this study, Northcentral University's Institutional Review Board's approval was received. Ethical concerns were minimal in the current study because all data used for the study are archival and publicly available and no new data collection was conducted. However, data used for this study consist of information about individual business owners and named businesses and it is possible that this information could be used for some purpose other than that stated in this research. To remove this possibility, no information on individuals or businesses was disseminated in any form during the course of conducting this study. Furthermore, because a business' name was not necessary for the current study, this information was deleted from all downloaded and extracted files prior to conducting the data analysis.

Implications

The first and second research questions of this study dealt with the 8 (a) program's costs and both the number and the percentage of firms exiting the program as independently operational. The number of firms exiting the 8 (a) program as independently operational is a measure of the program's productivity while the percentage of firms exiting the program as independently operational is a measure of the program's effectiveness. Both productivity and effectiveness are important considerations when examining costs and benefits of the 8 (a) program because the program is funded by taxpayers. Moreover, political perspectives have been concerned with the balance of benefits and costs for social programs and there are increasing concerns that some long-standing government programs, including the 8 (a) program, might be continuing without any real evidence that funds expended to support them are yielding worthwhile returns on taxpayers' dollars (OMB, 2010). While administrators and managers of the 8 (a) program assert that, in principle, benefits of the program are incremental gains made by disadvantaged groups in building sustainable businesses, creating employment, and increasing personal wealth of 8 (a) business owners, de Rugy (2005) questioned whether small business owners warrant exclusive financial incentives and the protection of such programs and suggested that the mantra of small business owners being the primary job creators in the U.S. is a myth. On the other hand, Dunn (2004) posited that, when evaluating the effectiveness and efficiency of a program, all costs and all benefits to society must be considered, including intangible benefits that cannot be easily measured in monetary or other quantitative terms.

Q1: What is the relationship, if any, between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms?

H1$_0$: There is no statistically significant relationship between the cost of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms.

The null hypothesis for this research question was not rejected and it was concluded that there was not a statistically significant relationship between costs of the 8 (a) program and the percentage of participating firms exiting the program as independently operational firms. Costs of the 8 (a) program includes personnel, travel, supplies, training and similar expenses, and the cost of 7 (j) contractors who provide 8 (a) business owners with managerial and technical assistance. Between fiscal year 1999 and fiscal year 2009, the cost of the program ranged from $24,394,483 to $57,380,000 but the percentage of businesses exiting the 8 (a) program as independently operational remained relatively unchanged, 92.2% in fiscal year 1999 and 94.2 percent at the end of fiscal year 2009.

Q2: What is the relationship, if any, between the costs of the 8 (a) program and the number of firms exiting the program as independently operational firms?

$H2_0$: There is no statistically significant relationship between the costs of the 8 (a) program and the number of firms exiting the program as independently operational firms.

The null hypothesis for this research question was not rejected and it was concluded that there was no statistically significant relationship between the costs of the 8 (a) program and the number of firms exiting the program as independently operational. Again, during the period reviewed for this study, fiscal years 1999 – 2009, total reported cost of the 8 (a) program ranged from $24,394,483 to $57,380,000. The number of firms exiting the 8 (a) program as independently operational during that same period of time ranged from a low of 83 for fiscal year 2008 to high of 621 for fiscal year 2009. Those numbers are outliers. SBA researchers make adjustments for business owners who withdraw from the 8 (a) program during an involuntary termination process. Likewise, business owners who voluntarily withdraw from the 8 (a) program are coded as independently operational. Management and technical assistance costs, which consist of the costs of maintaining a cadre of non-SBA employees and organizations to assist 8 (a) business owners, remained relatively stable over the 10-year period studied. From $2,600,000 for fiscal year 1999 to $4,880,000 for fiscal year 2009. Figures for management and technical assistance costs align with studies suggesting that the main reason most 8 (a) business owners enter the program is to access set-aside contracts and not to receive managerial and technical assistance. In contrast, administrative costs increased significantly, from $21,794,483 in fiscal year 1999 to $52,500,000 in fiscal year 2009. As previously stated, 8 (a) administrative costs included personnel, travel, supplies, and training and similar expenses for the SBA's headquarters and field offices in each state. However, despite administrative costs more than doubling from fiscal year 1999 to fiscal year 2009, results of this study suggest that no statistically significant relationship exist between the costs of the 8 (a) program and the number of firms exiting the program as independently operational firms. Accuracy of data, a limitation of this study resulting from SBA reports, is one of the persistent problems noted by SBA administrators and managers and could account for the low number of firms reported as graduating from the 8 (a) program, and for discrepancies in data reported for firms exiting the program as independently operational, terminated, or voluntarily withdrawn.

The third and fourth research questions of this study dealt with effects of the gender and the ethnicity of program participants and the receipt of and dollar value of federal government set-aside contracts they received.

Q3. The third research question of this study was: What is the difference, if any, between male and female participants' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

$H3_0$: There is no statistically significant difference based on gender for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

The effects of gender and ethnicity on the dichotomous outcome variable of whether or not a government contract was received were determined using a logistic regression analysis. Overall, the logistic regression model was statistically significant, indicating that the model with gender and ethnicity as predictors of whether or not a participating 8 (a) firm received a government contract was statistically significant. Individually, gender was not statistically significant and that is consistent with descriptive results that the percentage of firms that received government contracts that were headed by males and the percentage of firms that received government contracts that were headed by females were similar. Thus, the main effect for gender was not statistically significant and suggest that males and females did not differ in terms of the log of dollar values of government contracts they received.

Q4. What is the difference, if any, between various ethnic groups' benefits from the 8 (a) program in terms of whether or not they receive government contracts or the dollar value of government contracts?

$H4_0$: There is no statistically significant difference based on ethnicity for the 8 (a) program in terms of whether or not an individual receives government contracts or the dollar value of government contracts.

Overall, ethnicity was statistically significant and the null hypothesis was rejected. Using Caucasian as the reference category, results for individual ethnicity effects indicated that the likelihood of receiving a government contract was lower when a firm was headed by a Black individual or headed by an individual of some other ethnicity. Moreover, 8 (a) firms that were owned and operated by Black females received the lowest number of contracts than female headed firms of other groups. Additionally, firms headed by Blacks had a lower log of dollar value of contracts received than firms headed by Hispanics, Caucasians, and other ethnicities. SBA 8 (a) reports indicate, for fiscal years 1999 through 2009, Black business owners represent approximately 40% of all 8 (a) business owners, while 8 (a) businesses owned by Caucasians accounted for an average of 3.7% of all 8 (a) businesses. Skolnik and Chmelynski (1993) studied federal procurement patterns and have suggested that, while the number of federal contracts awarded to women-owned and minority-owned businesses appear low, that does not mean that an inequitable situation exists; in part, because federal procurement might be concentrated in industries dominated by large businesses. However, results of this study suggest that, since Skolnik and Chmelynki's study, businesses owned by Caucasian women have fared better in the federal procurement marketplace than businesses owned by women of other ethnicities. According to the most recent U.S. Census Bureau's Survey of Small Business Owners (2007), of 20,423,420 respondents, 37.5% were women and only 15.4% were identified as belonging to a racial or ethnic minority group. The Census Bureau's 2007 survey results indicated that 910,761 women-owned businesses with paid employees employed 7.6 million workers. There were 6.9 million women-owned U.S. firms with no paid employees. In contrast, for 2007, the U.S. Census Bureau's Survey of Small Business Owners reported that there were 106,824 black-owned employer firms that employed 921,032 workers and 1.8 million black-owned firms that had no paid employees. Results of this study suggest that, while 8 (a) businesses owned by Blacks outnumber those owned by each of the other groups in the 8 (a) program, Black business owners are not reaping many of the financial and business development benefits touted by administrators and other advocates of the 8 (a) program.

As stated in Chapter 2, equity in distributions of 8 (a) federal contracting dollars is significant because previous studies found that most socially and economically disadvantaged small business owners pursue the 8 (a) program because they view it as their entrée into federal contracting and they are less committed to utilizing the program as a small business training resource. One of this study's limitations is the accuracy of data in SBA and other reports on the 8 (a) program. The SBA has acknowledged that its small business contracting data have been unreliable for over 20 years, that federal agencies are routinely falling short of their small business contracting goals, that billions of dollars in contracts have been removed from the small business contracting database due to miscoding, and that small businesses failing to recertify their size status has resulted in small business set-aside contracts being awarded to large businesses. The impact of those issues is unknown and limits conclusions that can be drawn from this study. For example, Ong's (2001) study of the impact of set-aside contracts on 8 (a) businesses found that set-aside programs increased the ability of minority-owned firms to compete in the private sector. However, the inaccuracy of SBA data makes it difficult to determine actual benefits reaped by current and former minority-owned 8 (a) firms. Moreover, the federal small business contracting arena is fraught with fraud, abuse, and lack of oversight, prompting the GAO to investigate the extent of contracting abuse and to determine whether contracting officers are intentionally miscoding contracts that were set aside for small businesses to award those contracts to large businesses (Chapman, 2006). Because contracting assistance is one of the main reasons small business owners seek to participate in the 8 (a) business development program, ensuring that this component of the program is effective and operates as it was initially intended is crucial.

Recommendations

Small business owners face substantial hurdles when entering the complicated world of federal contracting and severe budget shortfalls means that even well-designed initiatives to boost small businesses may flounder (Baily, Dynan, & Elliott, 2003). However, lack of accountability in enforcing 8 (a) policies and procedures, inconsistency in reporting of data about program costs, status of current and former 8 (a) participants, and contracting initiatives suggest that the 8 (a) program is neither well-designed nor well-managed. At each phase of this study, opportunities for future research were noted.

Future research opportunities for the 8 (a) program include examining why, despite taxpayers' dollars being spent on maintaining a cadre of business professionals to assist 8 (a) business owners with business management and technical requirements, business owners are being terminated from the program for repeatedly neglecting to submit annually updated business plans. Management and technical assistance for 8 (a) business owners is reported by SBA administrators as a benefit of the 8 (a) program because it is designed to provide owners of 8 (a) businesses with the managerial expertise and knowledge base they need to excel in their business' industry. A study could be conducted to determine which 8 (a) participants utilize management and technical resources and to what degree those resources are utilized. The study would provide insight as to why some 8 (a) business owners seem to outperform their peers.

Participation in the 8 (a) program requires business owners to meet gender, race, and ethnicity requirements. Blum (2008) challenged the use of factors such as race, ethnicity, and gender in awarding federal contracts and special treatment for 8 (a) business owners and asserted the U.S. Congress must create new legislation that would allow all small business owners, regardless of their ethnic heritage or race, to compete for federal contracts. Blum's suggestion highlights the opportunity for a study examining which group or groups of 8 (a) business owners benefit most from the program's policies and procedures and actions of 8 (a) administrators, managers, and representatives. A common misconception is that the 8 (a) program only benefits racial and ethnic minority groups, specifically Black business owners, at the expense of small businesses owned by Caucasians. However, SBA reports examined for this study revealed that, despite representing less than 4% of all 8 (a) business owners, Caucasian females are the largest benefactors of 8 (a) contracts, with Black females benefitting less from the program than any of their 8 (a) counterparts, regardless of those counterparts' gender, race, or ethnicity. Programs such as the 8 (a) program, often receive criticism because they are viewed as benefiting individuals who are perceived as not having made a fair share of contributions to the federal coffers and are controversial because they typically target specific groups. Noon (2009) suggested that, despite criticism, the use of preferences in public procurement for social stability in programs such as the 8 (a) program is vital to the development of small disadvantaged businesses.

The SBA has increased the number of contracting officers who award contracts to small business owners. However, SBA reports reveal that, while new contracting officers are certified, there is no documentation verifying that those contracting officers received training and education needed to support their certification levels. A contracting officer's certification level determines the dollar amount of contracts the officer is authorized to award to a small business owner. A study could be conducted on the impact lack of training and education is having on decision-making and procedures used to award 8 (a) contracts. Results of that study could provide insight as to why a small percentage of 8 (a) business owners receive the largest percentage of 8 (a) contracts. Craig and Fernandez (2010) suggested that increased representation of minority groups in leadership positions might result in an increased proportion of federal contracts being awarded to small minority-owned firms.

A study examining reasons why miscoding of small business set-aside contracts remains a persistent problem in the 8 (a) program presents another opportunity for research. Likewise, a study examining why SBA administrators and managers report conflicting data and information in their published reports might prove instrumental in facilitating the generalization of results of studies conducted on the 8 (a) program. Currently, inaccuracies and conflicting data and information in SBA reports limits conclusions that can be drawn by researchers of the program. Moreover, reliable data and information could provide greater support for proponents of the 8 (a) program and for small business advocates who have historically asserted that small businesses are at the core of the U.S. economic recovery. Hamlin and Lyons (2003) asserted that, when enumerating contributions of small businesses to the U.S. economy, it is important to note opportunities small business owners have provided groups who have traditionally lacked economic power, such as women, minorities, and low-income individuals.

Many small businesses have been hard hit by the economic recession and appear to be lagging behind larger businesses in their recovery (Baily, Dynan, & Elliot, 2003). However, increasingly, governments are relying on the small business sector to help get people off the welfare rolls and into jobs because small businesses hire more employees who were previously on public assistance than do large businesses (Hamlin & Lyons, 2003). Hamlin and Lyons (2003) posited that, because of the tremendous value small businesses add to the U.S. economy, helping them to overcome challenges is in the public's best interest. Since 1998, the SBA, through a series of memoranda of understanding, has granted federal agencies considerable discretion to contract directly with 8 (a) firms and have delegated contract execution responsibilities to those agencies (Smith & Fernandez, 2010). Results of this study should encourage administrators and managers of the 8 (a) program to explore possible reasons why 8 (a) businesses owned by Black entrepreneurs, and Black females, in particular, are not receiving small business contracts comparable to rates of other 8 (a) business owners. Results of this study should also prompt administrators of the SBA to examine minority representation amongst contracting officers to determine the plausibility of Smith and Fernandez's theory of representative bureaucracy. Whether minorities are represented and to what degree they are represented among the ranks of individuals who make small business contracting decisions was beyond the scope of this study but warrants further research. Finally, the U.S. Office of Management and Budget's 2005 assessment of the 8 (a) program determine that the program's design presents major flaws that prevent it from being effective and efficient. The design of the 8 (a) program was beyond the scope of this study but also presents an opportunity for further research.

Conclusions

The vast majority of U.S. businesses are small and their owners represent some the greatest strengths of the U.S; the spirit of enterprise, the willingness to take risks, diversity, and the penchant for performing the hard work required to move a country's economy forward (Bush, 2003; Headd & Kirchoff, 2009). The SBA's 8 (a) program was created to help this country's small business owners develop profitable, sustainable business ventures that could create a continuous flow of jobs and lead to an increase in personal wealth for socially and economically disadvantaged small business owners and their employees. Through the SBA's 8 (a) program, owners of small businesses can receive a wide range of business development support, including assistance in receiving federal procurement contracts for their products and services.

Results of this study suggest that despite increasing costs of the 8 (a) program, not all 8 (a) firms are benefitting from its resources and federal contracting incentives and those results raise the question of whether the 8 (a) program is achieving its mission. Costs of providing resources and services to business owners participating in the 8 (a) program are paid by U.S. taxpayers and as the U.S. struggles to recover from what some financial analyst describe as a financial meltdown, the balance of benefits and costs for the 8 (a) program warrants attention. Monahan, Shah, and Mattare (2011) posited that, in a turbulent, depressed economy, the expectation of small business owners to be the engine of growth has never been more apparent. Small businesses add value to society beyond job generation and studying business ownership for women and minorities allows researchers to ask questions that shed light on linkages between business ownership and wealth creation, employment, and labor market dynamics (Dennis, 2011; Minniti & Naudé, 2010).

Chapter 5 included a brief review of the problem statement, purpose of this study, methodology used, limitations of this study, and ethical dimensions of this study. Implications of this study, each research question, and recommendations for future research were also discussed.

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Appendixes

Appendix A: Bologna Charter on SME Policies

(adopted on 15 June 2000)

Ministers and Representatives of governments of(1) Algeria, Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Morocco, Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Romania, Russian Federation, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, United States and Vietnam, participating in the Bologna Conference:

RECOGNISING the increasing importance of small and medium-sized enterprises (SMEs) in economic growth, job creation, regional and local development, and social cohesion, also through the role played by women and young entrepreneurs;

RECOGNISING that entrepreneurship and a dynamic SME sector are important for restructuring economies and for combating poverty;

RECOGNISING that globalisation, the acceleration of technological change and innovation create opportunities for SMEs but also involve transition costs and new challenges and that globalisation should lead to higher living standards for all and that its benefits should be accessible to all on an equitable basis;

RECOGNISING that SME policies need to be tailored to the circumstances and priorities of individual countries and sectors, while contributing to sustainable development and social progress;

WELCOMED the work on SMEs by the OECD and other international institutions and encouraged continued multilateral exchange of experience and best practice policies with a view to strengthening partnership and co-operation among SMEs in OECD and nonOECD countries. In this perspective, this first Conference of Ministers responsible for SMEs and Industry Ministers, jointly organised by the OECD and Italy, is a major opportunity to identify public and private sector actions to help SMEs develop their local strengths while capturing the benefits of globalisation and trade liberalisation.

ACKNOWLEDGED that SME competitiveness would benefit from:

- A regulatory environment which does not impose undue burdens on SMEs and is conducive to entrepreneurship, innovation and growth through, *inter alia*: promoting good governance and greater accountability in public administration; pursuing a fair and transparent competition policy, and implementing effective anti-corruption measures; and fostering the implementation of transparent, stable and nondiscriminatory tax regimes.
- Education and human resource management policies that: foster an innovative and entrepreneurial culture, including continuous training and lifelong learning;

encourage mobility of human resources; and reduce skill disparities by improving the match between education and labour market demand.
- Effective access to financial services, particularly to seed, working and development capital, including innovative financial instruments to reduce the risks and transaction costs of lending to SMEs.
- An environment that supports the development and diffusion of new technologies for and by SMEs to take advantage of the knowledge-based economy.
- Strengthening public-private partnerships and political and social dialogue involving territorial and institutional actors as a tool for exchange of information, utilisation of knowledge and elaboration of policy.
- Ensuring the cost-effectiveness of SME policies and their consistency with other national policies, as well as with existing international programmes.

RECOGNISING the vital contribution of innovation to SME competitiveness, the central role played by SMEs in national innovation systems, and the importance of improved access to information, financing and networking in facilitating the innovation process, RECOMMENDED that in developing SME policies, the following be considered:

- SMEs' ability to manage innovation be improved by: facilitating the hiring and training of qualified personnel; diffusing an innovation culture; disseminating technological and market information and providing related assistance (e.g. through improvements in relevant labour market mechanisms, and linkages between enterprises and education systems, and between industry and public and university research).
- Financial barriers to innovation in SMEs be reduced by: i) facilitating the development of market mechanisms for equity financing, and related services, especially for innovative start-ups; ii) promoting risk-sharing programmes and measures, including financial support and tax incentives to R&D and innovation; and iii) supporting initiatives which facilitate "partnerships for innovation" between entrepreneurs, public agencies and financiers.
- SME access to national and global innovation networks be facilitated and their participation in public R&D programmes and procurement contracts encouraged.

RECOGNISING that, in a number of countries, clusters(2) and networking can stimulate innovative and competitive SMEs, RECOMMENDED that in developing SME policies, the following be considered:

- Partnerships involving private actors, NGOs and different levels and sectors of public administration in local cluster and networking development strategies be facilitated.
- The private sector lead cluster initiatives, with the public sector playing a catalytic role according to national and local priorities (e.g., *interalia*, facilitating private investment with public incentives, facilitating seed funding and monitoring the results of network initiatives).
- Public and private sector bodies foster the growth of clusters (existing and embryonic) by: improving their access to accommodation and efficient

communications and transport infrastructures; facilitating local specialisation in university/industry linkages; disseminating targeted information, including on locational advantages and investment attractiveness; promoting suppliers' networks, technical support services, learning circles and other collaborative undertakings.

RECOGNISING that electronic commerce creates opportunities and challenges for SMEs, RECOMMENDED that in developing SME policies, the following be considered:

- Full account be taken of SME perspectives in the drafting of guidelines, rules and regulatory initiatives and instruments related to information and communication technologies (ICTs) and electronic commerce, taking into particular consideration the conclusions of the OECD Ministerial Conference on Electronic Commerce held in Ottawa in October 1998.
- Greater awareness among SMEs of the benefits of the Information Society and of integrating Internet use and electronic commerce in their business strategies be fostered by: i) encouraging the dissemination of information on opportunities and obstacles related to electronic commerce; ii) removing paper-based legal barriers to commercial electronic transactions and administrative impediments to the creation and development of new firms; iii) fostering a competitive market for high-quality network infrastructure; and iv) making use of the Internet in public administrations' interactions with SMEs and promoting electronic public procurement initiatives that provide equal access to SMEs.
- SMEs' participation in electronic commerce be enhanced by: i) fostering an environment conducive to business-led initiatives to promote the use of ICTs and electronic commerce (e.g. resource and demonstration centres, training initiatives, pilot projects); ii) encouraging the development of effective and user-friendly frameworks for certification, authentication, transaction security systems, privacy, and consumer protection and, more generally, providing an attractive business environment for electronic commerce in areas such as trade, competition, intellectual property rights (IPRs), standards, and taxation; and iii) enabling SMEs to work within a clear, consistent and predictable legal framework for electronic commerce, which allows access to "out-of-court" dispute resolution mechanisms, without imposing undue costs or burdens.

With regard to enhancing the competitiveness of SMEs in transition economies and developing countries in the global economy and their partnership with SMEs of OECD countries, RECOMMENDED that in developing SME policies, the following be considered:

- Co-ordination between governments, and regional and international organisations as regards industrial development programmes and initiatives aimed at supporting the growth of SMEs in transition and developing economies be improved.
- Support and financial services, including those carried out by intermediaries (e.g. self-help organisations, business associations, technical assistance centres, etc.), be promoted in ways that foster international co-operation and partnership among

SMEs and provide improved access to information, financial and technological resources and new markets.

- SME policies in developing and transition economies promote the long-term development of the sector and encourage networking. Policy and institutional mechanisms favouring large, often state-owned enterprises over SMEs, notably in sectors not characterised by economies of scale or other conditions of "natural monopoly", should be removed.

FUTURE ACTIONS

Ministers and Representatives of governments of countries participating in the Bologna Conference:

AGREED to work together and within international organisations to improve the complementarity of bilateral and multilateral initiatives to foster global SME partnerships and enhance the availability of financial and nonfinancial instruments to promote SME development.

AGREED on the usefulness of benchmarking the effectiveness of SME policies, regulatory environment and performance, based on data and statistics collected at national and sub-national level, including on electronic commerce.

TOOK NOTE, with interest, of the Italian proposal for an International Network for SMEs (INSME) and the Italian initiative to promote it. They WELCOMED Italy's offer to carry out a feasibility study, including a need assessment, to define its possible design and development, which could also benefit from support by interested countries and private sector inputs. Ministers and the OECD will be kept informed on the results of the feasibility study [see the Conference document entitled: Italian Proposal for an "International Network for SMEs (INSME)"].

AGREED on the importance of building on the achievements of the Bologna Conference and of pursuing the policy dialogue among OECD Member and nonmember countries, and LOOKED FORWARD to the possibility of holding a second Conference of Ministers responsible for SMEs and Industry Ministers to assess the impact on SMEs of new developments relating to globalisation

Source: Organization for Economic Cooperation and Development. (2000, June 15). *The Bologna charter on SME policies*. Center for Entrepreneurship, SMEs and Local Development. Retrieved from http://www.oecd.org/document/29/0,3343,en_2649_34197_1809105_1_1_1_1,00.html

Appendix B: Small Firm Employment Share and Employment Change in 2008

State	Small Firm Employment Share (%)	Employment Change (%)	State	Small Firm Employment Share (%)	Employment Change (%)
Montana	69.8	0.0	New Jersey	51.1	-0.8
Wyoming	66.2	3.1	Minnesota	51.0	-0.5
Vermont	63.5	-0.5	**United States**	**50.2**	**-0.7**
North Dakota	63.3	3.0	Mississippi	50.1	-0.9
South Dakota	63.2	1.4	Kentucky	50.0	-0.7
Maine	60.6	-0.1	South Carolina	50.0	-1.6
Idaho	58.6	-1.7	Pennsylvania	49.9	0.0
Oregon	57.2	-1.3	Utah	49.9	-0.2
Rhode Island	57.1	-2.3	Alabama	49.7	-1.4
New Mexico	57.0	0.1	Missouri	49.7	-0.4
Hawaii	56.1	-1.7	Connecticut	49.6	-0.1
Washington	55.7	0.5	Virginia	49.4	-0.4
Alaska	55.6	1.4	Illinois	49.2	-0.7
New Hampshire	54.9	-0.4	Arizona	48.8	-3.3
Kansas	54.6	0.6	Arkansas	48.8	-0.5
West Virginia	54.3	0.4	Indiana	48.6	-1.6
Louisiana	54.1	0.9	North Carolina	48.6	-0.9
Oklahoma	54.0	1.9	Ohio	48.6	-1.5
Maryland	53.4	-0.9	Delaware	48.3	-1.0
Wisconsin	53.4	-0.6	Massachusetts	48.3	0.2
California	52.1	-1.3	D.C.	48.2	0.9
Colorado	51.7	0.4	Texas	46.8	2.1
New York	51.7	0.6	Georgia	46.3	-1.8
Iowa	51.6	0.2	Tennessee	45.1	-1.2
Michigan	51.6	-2.8	Nevada	44.2	-3.1
Nebraska	51.4	0.7	Florida	44.0	-4.0

Source: *Small Business Profiles for the States and Territories, 2009.* U.S. Small Business Administration, Office of Advocacy. www.sba.gov/advo/research/profiles.

Appendix C: Scorecard VII Executive Summary

- The 22 agencies selected for 2005 represent more than 99.7% of all government contract dollars.
- Scorecard VII shows that the federal government has missed its 23% small business contracting goal for the sixth straight year in a row.
- This evaluation shows that the actual achievement was only 21.57% – the lowest achievement in the history of the Scorecard evaluations.
- The overall grade was a D, with 1.88 points. This is the fifth consecutive year that the federal government has received a grade of D in the Scorecard evaluation.
- Because the small business goal was not accomplished in 2005, small companies lost $4.5 billion in contracting opportunities this past year alone – over half of the total lost since the inception of the Scorecard report in 1999 ($9.9 billion).
- The $4.5 billion loss for small businesses is over double what it was last year.
- While the federal government continues to grow at a rapid rate – from 2004 to 2005 purchasing increased by 7% to $314 billion (a 57% increase since 2000) – small business dollars only increased by 2%.
- From 2003 to 2005, the federal government's contracting volume increased by 10% but small business dollars increased by only 5%.

Miscoding

- One of the main barriers that has prevented small businesses from receiving small business contracts is the issue of miscoding, first addressed in Scorecard V in 2004.
- Scorecard VII found that $11.9 billion of contract awards had been miscoded – almost six times the amount that was identified in SBA's Office of Advocacy report in 2004.
- 22% of the large companies that Advocacy identified in 2004, were also miscoded in 2005.
- The incidents of miscoding have increased 500% in the last four years.
- 15% of small business dollars were miscoded.
- Over 2500 entities – large companies, not for profits and government agencies – were miscoded in the data.
- SBA claimed that the small business achievement was 25.36%; however, when miscoding is subtracted out of the total, the actual achievement is only 21.57%.
- The Department of Defense (DoD) had the highest percentage of miscoding.
- While DoD represents 69% of the federal market, the agency accounted for nearly three-fourths of total miscoding, or $8.3 billion.
- Of the miscodings, 36.55% were awarded to large corporations and 37.83% were awarded to large businesses that are no longer considered to be small. 17% were acquisitions of small businesses by large companies.
- New awards to companies that are not small represent more than 62% of the $11.9 billion in fiscal year 2005 miscoding.
- On average, 15% of agencies' small business dollars were miscoded – only 85% actually went to small firms.

Contract Bundling

- The report shows that agencies which reported an above average (15%) rate of miscoding, were also likely to bundle contracts.
- Scorecard VII found a dramatic reduction in the number of small business contract actions while there was substantial growth in contracting dollars, indicative of bundled contracts.
- From 2000 to 2005, the total government contracting dollars increased by nearly 60%, while small business contract actions declined by 55%.
- The incidences of contract bundling has increased by over 40% from 2001 to 2004.
- Fourteen of the 22 agencies – 64% – show indications of contract bundling.
- The Department of Education, Office of Personnel Management, Department of Energy, and Department of Homeland Security all had above average rates of miscoding and showed increased bundling activity.
- The Department of Defense had had a decline in contract actions of 65% in the last year alone, despite an increase in total volume of 13%.

Overall Grades

The following goals were analyzed: small business, small disadvantaged business, 8 (a), women-owned, and HUBZones.

- Twelve agencies received failing grades this year – HUD, Labor, Justice, OPM, Treasury and Social Security received Ds. EPA and State received a D-, and USAID, NASA, Education and Energy received an F.
- Over the past seven Scorecard reports, 3 agencies stand out as consistently receiving failing grades: USAID, Education and Energy.
- Since the beginning of the Scorecard report in 1999, minority entrepreneurs have lost $21.2 billion in contracting opportunities because the federal government has failed to meet the 5% small disadvantaged business goal (SDBG).
- Minority companies lost $4.5 billion in contracting opportunities this year because the federal government failed to meet the sdbd goal.
- The federal government also missed its 8 (a) contracting goal with an accomplishment of 3.33%, down from 3.99% in 2003.
- From 2003 to 2005, 8 (a) contract dollars declined by 8%, while the federal government's total buying increased by 10%.
- Alaska Native Corporations (ANCs) represented 22% of total 8 (a) contract dollars in 2005 – up from 13% in 2004.
- For 10 of the 22 agencies evaluated in the Scorecard report, ANC contracts represented more than 23% of 8 (a) contract dollars.
- For several agencies, ANC contracts represented over 50% of their 8 (a) contracts – Department of Commerce (67%), Department of Labor (66.9%), USAID (61.9%), Department of State (60%) and Department of Homeland Security (56.3%).
- In 2005, 8 (a) contracts with Alaska Native Corporations increased to $2.2 billion, from $1.1 billion in 2004 – doubling in one year.
- Without ANCs, the 8 (a) goal would have been only 2.6%.
- Women owned businesses lost $5.2 billion in contracting opportunities in 2005 because the goal was not met.

- 28% of the agencies evaluated had a lower women business owner accomplishment when compared to last year.
- The 5% women-owned business goal has not been met since its inception in 1994. Since 1999 alone, this failure has cost women entrepreneurs $37.5 billion in lost opportunity.
- HUBZone companies have a goal of 3% of government contracts, however since its establishment in 2000, the goal has not been accomplished. The 2005 attainment was 1.94%.
- Ten agencies – 45% – established unreasonably low goals. These agencies include: Interior, SBA, Agriculture, Commerce, HUD, Labor, Treasury, Social Security, EPA and State.
- For one agency – HUD – all but one (HUBZone) of the established goals were unreasonably low.