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AN ANALYSIS OF MINORITY AND SMALL BUSINESS DEVELOPMENT, WITH EM--ETC(U)  
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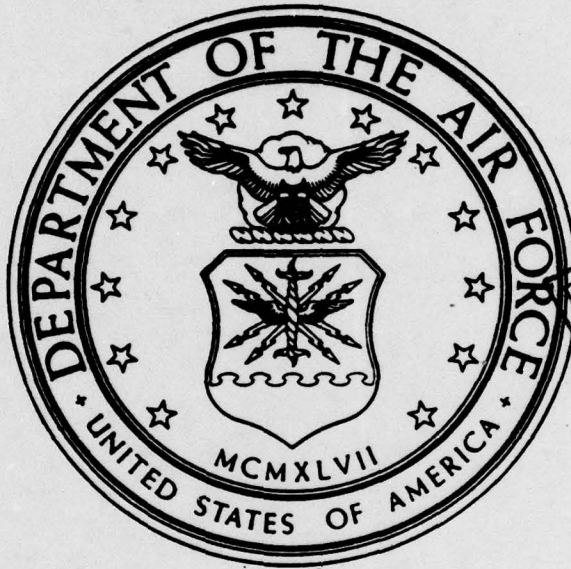


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An Analysis of Minority & Small Business  
 Development, with Emphasis on the U.S. Air  
 Force's Participation in the Section 8(a)  
 Minority & Small Business Development  
 Program by B. R. Gamble, Maj, USAF

A RESEARCH STUDY SUBMITTED TO THE AIR FORCE FACULTY

May 1979

FORT LEAVENWORTH, KANSAS

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U.S. ARMY COMMAND AND GENERAL STAFF COLLEGE

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May 1979

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U.S. ARMY COMMAND AND GENERAL STAFF COLLEGE  
FORT LEAVENWORTH, KANSAS

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TABLE OF CONTENTS

|   |      |
|---|------|
|   | Page |
| LIST OF TABLES . . . . .  | 11   |
| EXECUTIVE SUMMARY. . . . .  | 111  |
| <b>Chapter</b>  |      |
| I. INTRODUCTION . . . . .   | 1    |
| II. BLACK BUSINESS DEVELOPMENT - AN<br>HISTORICAL PERSPECTIVE . . . . . | 3    |
| III. THE SECTION 8(A) PROGRAM . . . . .                                 | 11   |
| IV. CONCLUSIONS AND RECOMMENDATIONS. . . . .                            | 28   |
| BIBLIOGRAPHY . . . . .  | 30   |
| ATTACHMENT 1 . . . . .  | 32   |

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LIST OF TABLES

|                              | Page |
|------------------------------|------|
| I. 1890 Statistics . . . . . | 6    |

## EXECUTIVE SUMMARY

**TITLE:** AN ANALYSIS OF MINORITY & SMALL BUSINESS DEVELOPMENT, WITH EMPHASIS ON THE U.S. AIR FORCE'S PARTICIPATION IN THE SECTION 8(a) MINORITY & SMALL BUSINESS DEVELOPMENT PROGRAM

**AUTHOR:** MAJ B. R. GAMBLE

**ADVISOR:** MAJ JOSEPH BREAM, USAF, USACGSC/USAF SECTION

I. Purpose: To describe Air Force experience and success with the Section 8(a) Small Business Program.

II. Problem: Two extremes are possible when minority and small business development and federal government assistance are studied. The most positive approach sees minority business development as a formidable means of alleviating historic social and economic oppression among minorities. Conversely, it is also felt that minority and small business have little chance of succeeding economically, and that federal programs to assist them are largely a waste of taxpayer funds. There is a need then to bring these extremes into a clearer focus. The Section 8(a) Program of the Small Business Act is the central area for discussion in this paper as this program purports to assist minority and small business economically, technically, and managerially. The Air Force, as are all federal agencies, is enjoined to support the 8(a) Program through the procurement process. Numerous 8(a) contracts are written yearly that total

In the millions of dollars. The subject to be discussed concerns how much or in what ways these contracts contribute to minority and small business development and expansion, i.e., the purpose of the Section 8(a) Program.)

III. Data: A combination of published and unpublished materials augmented by personal interviews conducted by the author are used in this study. Results of a quantitative analysis concerning Air Force participation in the 8(a) Program are also offered for review.

IV. Conclusions: Air Force experience with the Section 8(a) Program has been satisfactory from a monetary expenditure viewpoint. However, further research is required to determine the business development impact that Air Force procurements have had on small and minority business development and expansion.

V. Recommendations: The Air Force should continue its present procurement programs that aid minority and small business. It should also study the developmental impact of its expenditures on minority and small business development, and investigate the potential for bias in the SBA-Air Force procurement process.

## CHAPTER I

### INTRODUCTION

Two extremes are possible when minority and small business development and federal government assistance are studied. Recent news articles demonstrate this divergence. On February 27, 1979, Quinith Janssen published an article in the National Enquirer, asserting that the government gave millions of dollars over a ten year period to help 3400 minority and small businesses and that only 30 of those businesses exist today. The article states in part: "They just dished out contracts willy-nilly to any firm they thought could handle the contract... They never worried about whether the business would be viable at the end of that contract." (9:21)

On March 15, 1979, the Kansas City Star published an article by Jack Anderson which suggested that one governmental department, the Defense Department, had been non supportive of the government's minority and small business program.

Typical of the Pentagon attitude has been the stubborn refusal to heed Congress' orders to give a bigger slice of the Defense Department's immense budgetary pie to small businessmen and minority contractors. Less than 1 percent goes to minority businessmen. Small business' share of Pentagon contracts has actually been declining in recent years despite

pressure from Congress. (10:13)

With such opposing viewpoints there is little wonder that the subject of this paper has sparked considerable interest. In this paper an attempt will be made to normalize these two extremes by briefly tracing the history of minority business, discussing federal approaches to overcoming minority and small business underdevelopment, and by analyzing Air Force experience with the Section 8(a) Minority and Small Business Development Program. The method of analysis uses a combination of published materials and personal interviews.

## CHAPTER II

### BLACK BUSINESS DEVELOPMENT - AN HISTORICAL PERSPECTIVE

To fully appreciate the thrust of this paper it is necessary to understand the historical context in which black enterprise has developed. When we examine the pre-Civil War period we find that blacks were not strangers to the world of business nor to the ownership of property. A few examples provide useful illustrations of this fact. In 1770 a free black was assessed property taxes in Lancaster, Pennsylvania. (1:7) By the end of the century free blacks owned approximately 100 houses in Philadelphia. (1:7) Paul Cuffe of Massachusetts, a notable example of early black entrepreneurship, was a successful ship-builder, sailor, and landowner. He even contributed money to some of the back to Africa campaigns. (1:8) James Forten became wealthy after the War of 1812 by his invention of a device that aided in the control of sails. (1:8) While practically all holdings of blacks were in the North, on the eve of the Civil War black assets totalled about \$50 million dollars. (1:8)

After the Civil War, the newly freed black man found himself in a very difficult position. Possessed with the requisite skills for business and even a certain amount of "business

sense", he was made painfully aware that he did not have an economic base from which to project. As we shall see later this has been a continuing obstacle to black business progress. Notwithstanding this impediment, blacks turned to mutual aid, religion, and fraternal organizations for economic and social security after the Civil War. Again, a few examples will illustrate the effect of these early financial institutions.

"On March 3, 1865 President Lincoln signed the Act of Congress which created the Freedmen's Savings and Trust Company, later known as the Freedmen's Bank." (1:10) The bank flourished for a time but ultimately failed in 1874, due to gross mismanagement and corrupt white officials. However, despite its failure the Freedmen's Bank had instilled into blacks the spirit of business enterprise.

Since the 1880s until now many blacks (and now, many whites) have argued strongly that business and property are escape mechanisms from racial oppression and economic distress. In 1889, at an Atlanta University Conference on Black Business the following resolution was adopted:

Negroes out to enter into business life in increasing numbers. The present disproportion in the distribution of Negroes in the various occupations is unfortunate. It gives the race a onesided development...Moreover, the growth of a class of merchants among us would be a farsighted measure of self-defense, and would make for wealth and mutual cooperation.  
(1:12)

Black banking began to flourish again in 1888, and by necessity were started by religious and fraternal organizations. By 1973 there were 37 black controlled banks - since 1888 there had been as many as 134. Black financial institutions have significantly aided the minority business community. In 1971 minority banks had less than one percent of the nation's total, only \$600 million, but accounted for more than 29% of business loans to minorities. (1:15) Fraternal and religious organizations also developed insurance companies. North Carolina Mutual is largest of all black enterprises with assets in excess of \$129 million and approximately \$1.5 billion of insurance in force. (1:16)

In the non-financial area, blacks have historically tended to concentrate in business areas involving hard labor or menial service - areas largely shunned by whites. The following table gives some idea of where black owned businesses were concentrated in 1890. (1:21)

TABLE 1. 1890 Statistics

|  |            |
|--|------------|
| 1. Draymen, hackmen, teamsters<br>(local hauling, delivery and transportation) | 43,963     |
| 2. Bankers   | 17,480     |
| 3. Merchants   | 7,181      |
| 4. Hucksters & Peddlers  | 2,516      |
| 5. Restaurant Hotel Keepers  | 2,157      |
| 6. Salesmen and Saleswomen   | 1,166      |
| 7. Packers and Shippers  | 567        |
| 8. Hotel Keepers   | 420        |
| 9. Livery Stable Keepers   | 390        |
| 10. Undertakers  | <u>231</u> |
| Total  | 76,071     |

The 1969 Survey of U.S. Business by the Small Business Administration (SBA) showed that there were 112,500 black owned businesses. This was approximately 2.25% of all business firms in the U.S. which totalled over 5 million. The survey further showed that if blacks owned businesses proportional to their 11 percent population, they would have owned about 550,000 businesses. Thus, as far as proportional representation was concerned, the SBA figure was 437,500 businesses short. (11:8)

Total business figures for 1890 were not available to make

exact statistical comparisons for black or minority business as a percentage of total U.S. business between the period 1890 and 1969. However, the fact that black owned businesses grew from 76,071 businesses in 1890, to a mere 112,500 in 1969, strongly suggests a very retarded business development process. It is a sad commentary that after 80 years of participating in a free enterprise system, black and minority business had not appreciably improved. There was no where to go but up!

During the 1960s and 70s there has been a renewed interest in black business development. Blacks (and other minorities) are demanding, through the business "avenue of approach", their share of the American dream. Further, since the free enterprise has not worked for black business development, blacks have turned increasingly to government for action and support. The government has responded in a variety of programs, principally governed by the Small Business Administration. Considerable controversy surrounds the necessity for federal assistance to black business. Notwithstanding, federal assistance to black business is based on two important assumptions:

- (1) Black business can grow to economic significance.
- (2) Black business will help the black community. (1:21)

In other words, the development of black business will aid in overcoming the indigent condition of some of America's 23,000,000 black citizens - and that is good for the country. It would

follow then, that anything accomplished by the various governmental departments, to include the DOD, would be beneficial toward achieving this noble objective.

It is in the face of substantial opposition that federal assistance has woven its way to the aid of black enterprise. The cons range all the way from incompetence among black businessmen to encouraging segregationist economics. Flournoy Coles, a Vanderbilt economist, surveyed 564 black enterprises in 1969 and found that not one had had formal business training. (1:22) This type of information has been used to suggest that blacks are incompetent in business. Some have the opinion that the black businessman would not support the black community. In 1957, E. Franklin Frazier said: "Behind all the antagonism to remove racial discrimination from the ghettos is the desire of these black merchants to enjoy a monopoly on the black market." (1:25) Black enterprise has been further criticized on grounds of being too small to benefit from the economies of scale, and of being concentrated in declining industries. Essentially, this means that large organizations can economically absorb administrative and developmental costs whereas such costs for a small company may adversely affect its profit potential. A final argument is that it indorses a separate segregationist system - something that all Americans want to eliminate.

In isolation these arguments are sometimes hard to deflate.

Time and experience will, hopefully, deny flatly the above negative allegations. In fact, Gunnar Myrdal's study concludes that blacks have not succeeded greatly in business because they have been denied the experience. Black business is important because of the social contribution it can make to the black community and to America in general. To really share in America's dream, blacks must have property, (business), and money. (2)

Federal assistance to minorities began with a series of executive actions. On April 25, 1968, in his speech, Bridges to Human Dignity, President Nixon said concerning black business:

A third bridge is the development of black capitalism. By providing technical assistance and loan guarantees, by opening new capital sources, we can help Negroes to start new businesses in the ghetto and to expand existing ones. (1:67)

On March 5, 1969, two months after his inauguration, Nixon established the Office of Minority Business Enterprise under the Department of Commerce.

Federal programs to aid minorities in business include a variety of approaches. These are principally administered by the SBA and include:

- SBA regular business loans (direct advance of \$100,000.00 or 90% guarantee of \$350,000.00 loan).
- Displaced Business Loans (for those who suffer because of urban renewal, construction projects, etc.)
- Local Development Company Loans (502 loans, to assist

small business in long term financing)

- Economic Opportunity Loans (provides management and technical assistance upon request, and \$25,000 with up to 15 years to repay)
- Minority Enterprise Small Business Investment Company - MESBIC (Company licensed to loan funds to minority business and receive matching funds.)

### CHAPTER III

#### THE SECTION 8(a) PROGRAM

The programs mentioned in Chapter I are significant, but the Section 8(a) Program, not listed above impacts specifically on the Department of Defense (DOD). The 8(a) Program is so called because it stems from Section 8(a) of the Small Business Act of 1958 (as amended). Under this program the Government may write contracts with the SBA, who in turn, subcontracts to one of its approved 8(a) contractors. For example, if there is a requirement for painting of the commissary at Jonesmith AFB, Kansas, the Small Business Specialist in the Office of Procurement may determine that it is an appropriate task for small business. He then contracts his requirement to his local SBA representative to support the requirement. The SBA then, under the 8(a) Program, may subcontract the paint job to a minority small business contractor. Further, under 8(a), the contract can be awarded noncompetitively.

The purpose of the 8(a) Program is to assist in the development and expansion of existing, newly organized, or prospective small businesses that are owned and operated by disadvantaged persons. (4:14) Disadvantaged persons include those who have

been socially or economically disadvantaged, and for the 8(a) Program this has been interpreted to include: Negroes, Spanish Speaking Americans, American-Orientals, American-Indians, American-Eskimos, American Aleuts, Native Hawaiians, among other specifically identifiable minorities. (5:Ex III)

Aside from the fact that minority business has not developed significantly under the free enterprise system, the question has been raised, "Why go after the DOD procurement dollar to aid in rectification of a past injustice?" The answer lies in the fact that DOD is the "big spender" when it comes to procurement by federal agencies. To be sure, Defense expenditures, until 1974 when they were overtaken by income security programs, were the largest single item in federal outlays since World War II. (3: 140) The DOD procurement budgets for FY 78 and FY 79 give some idea of the magnitude of resources that are of interest to the business community. The procurement budget for FY 78 was \$30.3 billion and for FY 79 \$32.0 billion dollars. (12:15) To be sure, all federal agencies involved in procurement are encouraged to participate in the 8(a) Program. However, the size of DOD procurement deserves some attention.

The Department of Defense has consistently had more contracts both in terms of number and amounts than any other federal agency. It was apparently for this reason that Secretary of Defense Clifford argued that the Department of Defense had not lived up to its obligation and potential for devoting

sufficient thinking and resources to "those aspects of our domestic problems which are important to our total national security." (3:139)

What then has been the Air Force experience with the 8(a) Program? In attempting to answer this question a combination of research reports, letters from various sources, interviews with Small Business Specialists, and an interview with an 8(a) contractor will be used. The following paragraphs comment on these findings. It should be reemphasized at this point that the purpose of the 8(a) Program is to assist in the development and expansion of business owned and operated by disadvantaged persons.

Only one quantitative attempt has been made to evaluate the Section 8(a) Program's overall effectiveness. This attempt was made by Arthur Thomas King, in his 1977 dissertation: The Relationships Between Socio-Economic Programs and the Department of the Air Force Budget: Section 8(a) of the Small Business Act -- The Economic Development and Public Finance Aspects of a Public Policy Program. (3)

King asserts that:

(1) SBA (in its dealings with all agencies, including the Air Force) has emphasized quantity of business as opposed to business quality. In so doing, he claims that SBA may have overextended its capability to provide for self-sufficiency of firms in the program. (3:150)

(2) The number of contracts vs the dollar amount is an im-

portant consideration for an 8(a) contractor on the road to self sufficiency. Too many or too few contracts, or too much or too little money, coupled with the vagaries of the marketplace could spell doom for any businessman. (3:150)

(3) The majority of contracts awarded under the 8(a) Program have been service or small construction contracts. Further, if, for example, a contract were (and many times is) awarded non-competitively, it might induce an 8(a) contractor to expand into a product line that is undesirable from a competitive market standpoint. His analysis showed that there were seven times as many service as manufacturing contracts awarded during the period 1974-76. However, manufacturing contracts contributed three times as much per contract to business sales volume. (3:154)

King's quantitative model uses the regression analysis technique in his attempt to quantify the effectiveness of the 8(a) Program as an economic development tool. The model considers the relationship between twelve contract variables for Air Force contracts written between FY 68 through FY 76. These variables include number, type, and dollar amount of contracts, FY in which contract was awarded, minority group of the firm, contract awards by other agencies, and population characteristics of the city and region in which the award was made. King used 365 observations when the total dollar amount of Air Force Section 8(a) contracts awarded the firm since 1968 was used as a measure of effective-

ness, and 935 observations when a dollar amount of a particular contract was used as a measure of effectiveness. He observes that:

(1) Results of the model were statistically significant for each specification of the dependent variable. The system of independent variables could explain more than 30% of the change in the dependent variables, i.e., the total dollar amount of Air Force Section 8(a) contracts awarded the firm (dependent variable, first case), and the individual dollar amount of a contract awarded the firm (dependent variable, second case).

(2) When individual contracts were analyzed, King found that the dollar amount of contracts decreased as the number of contracts increased. He observed that large contracts were not frequently awarded in the program and when they are awarded, the awards are for lengthy periods.

(3) An inverse relationship was found between the percentage of the population which was non white in the city of award and the dependent variable. This led to the suggestion that the Section 8(a) Program probably did not take full advantage of contracting opportunities afforded in areas with large concentrations of minority group members to the detriment of the minority group economic development contribution of the program.

(4) Although not statistically significant for the first case equation, both equations suggested that (a) one agency

tended to provide the contracts that made up the total contract value for firms in the program, and (b) that contracts were awarded by other agencies less frequently as the dollar amount of Air Force contracts increased.

(5) Larger contract awards were made as the firm's perceived ability to perform increased.

King concludes from this study that:

a. "...the 8(a) Program has been somewhat effective in alleviating one aspect of the economic underdevelopment problem of the United States minority group sector." (3:170)

b. "...the program has helped a limited number of minority group businesses." (3:170)

c. "The program does not appear to provide either dollar amount of contracts or total contract value which is responsive to firms located in areas where minority group members are concentrated." (3:170)

d. "...greater effort (by SBA) to involve several agencies should make adequate contract support more readily attainable for its client firms." (3:170)

It should be noted that any effort to assist in the development of minority enterprise should take on more than a "somewhat effective" status. Further, there is little the Air Force can do about population distribution. With the exception of two or three installations in the northeast, Air Force bases are not

normally located in areas of concentrated minority (or any other) populations. Nevertheless, in the opinion of Gen Poe, Commander, Air Force Logistics Command, the Air Force has been the only service to meet its minority business goal (6), and has taken steps to even further contribute to minority business development. A review of the role of the Small Business Specialist (located at installation level) gives some idea of the Air Force commitment to Small and minority business. These duties would be in concert with the King study and are excerpted from the 1979 Air Force Small and Minority Business Handbook (4:2). These duties include:

- a. Establish a system to locate small and minority business sources.
- b. Ensure small and minority business firms receive maximum opportunity to receive contract and purchase awards.
- c. Initiate small business set-asides when appropriate.
- d. Ensure small and minority business firms are not precluded from competing because of restrictive drawings or specifications unless there are sufficient and valid reasons to the contrary.
- e. Review acquisition programs to identify items suitable for purchase from small and minority business firms.
- f. Review commissary sources, including DSA and DPSC, to ensure small and minority business awards are properly coded.

g. Ensure buyers are taking action to locate small and minority business sources for new items and for items currently purchased from large business.

h. Ensure awards to small and minority business firms are properly reported. This includes establishing a program to ensure that acquisition personnel are aware of revised size standards as they occur.

i. Assist small and minority business firms in understanding requirements for responsiveness and responsibility to enable the firm to compete for future awards.

j. Participate in government-industry conferences to assist small and minority business firms, including Minority Business Opportunity meetings.

k. Advise small and minority business firms how to get on the bidders' mailing list for future acquisitions and how to subscribe to the Commerce Business Daily as a source of information.

l. Identify requirements to the Small Business Administration for joint class set-asides. Identify requirements to the contracting officer for unilateral set-asides.

m. Identify requirements to the Small Business Administration for contracting under Section 8(a) of the Small Business Act.

n. Initiate plans and take action to promote and publicize Small Business Week to the maximum extent.

o. Ensure that all applicable acquisitions over \$10,000 are synopsized in an intelligible form in the Commerce Business Daily.

p. Screen all proposed acquisitions in excess of \$2500 and recommend actions with respect to setting aside such acquisitions.

q. Provide copies of solicitations to the Small Business Administration when deemed appropriate.

r. Participate in contracting officer determinations of responsibility/nonresponsibility on small and minority business firms.

s. Assist small and minority business firms in subcontracting opportunities and provide large business firms with information concerning the availability of qualified small and minority business firms.

t. Maintain close coordination with the SBA Procurement Center Representative and the Command Executive for Small Business.

u. Conduct training/education sessions for all personnel involved in the acquisition cycle on the importance of Small Business and Minority Enterprise Program goals and their involvement in the program.

v. Publicize the program to the maximum extent and seek the involvement of appropriate commanders and top management to provide program emphasis.

w. Ensure that an alternate Small Business Specialist has been properly appointed to assume requisite duties in the absence of the primary.

x. Prepare recommended field activity goals for submission to the Command Executive for Small Business.

The above represents a substantial effort on the part of the Air Force to aid in the development of small and minority business enterprise. An indication of the practical effort toward this goal was observed during two interviews conducted in the course of this research. The basic content of the first interview is given herewith:

Interview with Mr. Robert Marler,  
Small Business Specialist,  
Richards-Gebaur AFB, Mo., 13 Mar 79

- I. Q: From whom do you receive direction as to what the goals of minority business under 8A should be?
- A: Major Command receives its direction from USAF and in turn passes instructions to us. These instructions are not in monetary amounts. We decide what we can accomplish, usually based on last year's performance, and forward our goal through procurement channels.
- II. Q: Was this satisfactory to all concerned?
- A: Yes, pretty much so. There were a few criticisms, but we had a good program.
- III. Q: Would you have preferred any other input or direction

as to how to go about determining your goal? Were you satisfied with your procedure?

A: I can't say there is a better way. We know what we can do in this area of contracting and I think we did our best. We allotted about 5% of our budget in 1972, for example, and that was based on the previous year's performance with some increases due to the nature of certain projects. Of course since the base closed, we don't have much now to work with. We assigned a dollar amount for FY 79 and didn't concern ourselves with percentages because of the nature of certain construction projects and in general the total work that we had to accomplish. I meant to have the dollar figure for you but I misplaced it.

IV. Q: What do you think of the 8A program?

A: I think it's a good program. It was difficult when it started because it was operated at such a high level. When they put it down at my level, the Small Business Specialist level, then it began to work pretty good.

V. Q: When you need a contractor for a particular job do you go directly to SBA in Kansas City?

A: Yes.

VI. Q: Are they capable of doing all the negotiating for you?

A: No. We end up having to negotiate with the contractor,

i.e., explaining a few things pertinent to what we want.

VII. Q: Is this satisfactory to you?

A: I think so. We try to assure ourselves of what we're buying.

VIII. Q: Let's go back to negotiating for a moment. Do you find yourself having to explain a lot of things to 8A contractors, like rules, regulations, policies, etc?

A: We have to explain requirements for reports we have to make. Sometimes these aren't too well understood. One big problem we had had to do with bonding because of the Miller Act. That was a big problem for a while.

IX. Q: What do you think of the non-competitive bid aspect of the 8A program?

A: While I understand the reason behind it, it goes against everything we've been taught in the contracting business. You have to realize that we pride ourselves on insuring that competition takes place. We have been trained that way. It's kind of hard for people to adjust to. It kinda comes down to the sole source procurement argument, sometimes it can work for you and sometimes against you. I remember when ADC was here we let our prohibition against sole source

work against us. There was only one manufacturer that made the equipment we needed, but the higher ups decided against buying it simply because there were no other suppliers. I think the whole command was put back a few years on that one. On the other hand, when we needed some emergency repair on our runway we went 8A because it was quicker than competitive bid. This in effect is sole source, but we can do that with 8A to our advantage.

- X. General. A variety of subjects were discussed concerning minority 8A contracting at Richards-Gebaur AFB, Mo., and minority contracting in general. Mr. Marler felt that over-all Richards-Gebaur had had a successful experience with the 8A program. Only one stuck out in his mind as a total failure. He was extremely helpful in providing information and provided further sources to contact.

To the extent that Mr. Marler's positive attitude toward the 8(a) Program represents the attitude of Air Force Small Business Specialists in general, it might be concluded that the Air Force has a viable program.

The second interview was conducted on 10 April 79, with Mr. Thomas E. Gonsalves, Command Executive for Small Business for the Military Airlift Command, Headquarters, Scott Air Force Base,

Illinois.

Mr. Gonsalves attested to the success MAC had experienced with the 8(a) Program. He explained that the process of goal setting (and achieving) is something he watches very closely as the Command Executive Agent. Monetary goals set at installation level reflect in large measure the attitude of the local procurement establishment. Mr. Gonsalves felt that MAC's goals were realistic and were being achieved. Small business set-asides, for example, were being increased 10 percent over FY 78, thus increasing the MAC FY 79 goal to \$64,759,200.00. (set asides are those acquisitions "set aside" for exclusive competitive participation of small (to include minority) business concerns. Attachment 1 lists MAC FY 79 Small and Minority Business 8(a) and Set-Aside Goals.

Mr. Gonsalves expressed some concern over the reluctance of SBA to absorb business development expenses over the 8(a) Program. Business Development Expenses (BDEs) are expenses incurred by a minority contractor that are generally attributed to his lack of administrative development, and which result in costs to him that would make acceptance of a government contract an unprofitable proposition. A large contractor normally would have the overhead and experience to absorb these costs. Nonetheless, SBA under provisions designed to aid the development of minority business is allowed to absorb certain BDEs. It was Mr. Gonsalve's

opinion that the SBA's use of this authority was too restrictive. He felt that a more liberal use of this authority would contribute more to the program's stated objective and would preclude minority firms from accepting contracts that might contribute to their unprofitability. In its February 28, 1978 Special Letter On 8(a) Program, the National Association of Service contractors recommended that BDE funds not be used as a form of price subsidy but for the benefit of 8(a) firms primarily. (7:2)

A final interview was conducted with an 8(a) Program contractor who wishes not to be identified. This interview was conducted in two sessions on 10 Jan 79, and 1 Mar 79. The contractor, who will be referred to as Mr. X, had been very successful in the program. His contracts totalled in the millions of dollars and he considered himself an exception to the rule as far as successful 8(a) contractors are concerned. Mr. X had not worked for the Air Force but had worked extensively for the Army. As a member of many national organizations that focus on minority business matters, Mr. X was able to give a broad based opinion on the 8(a) Program.

It was his notion that the Air Force was most aggressive of the three services, with the Army running a close second and the Navy third. Negotiating with the services was not a particular problem, according to Mr. X, except in isolated instances. The biggest block to progress, he thought, was the local SBA. This

view, he claimed, was widely held by 8(a) Program contractors. This apparently has some basis as during the Gonsalves interview, Gonsalves stated he had observed this attitude among minority 8(a) contractors with whom MAC dealt. Further, 8(a) News, an American National Association of 8(a) Government Contractors publication, stated in its 1 Feb 78, issue: "Through positive advocacy the association continuously strives to eliminate the apparent personal bias against 8(a) contractors held by many of those individuals responsible for awarding contracts." (8:1) Mr. X stated that these comments were principally directed at local SBA officials. The crux of the matter he felt was couched in resentment and discriminatory attitudes. "In other words," he said, "a white (SBA) bureaucrat, making 35 or 40 thousand dollars a year, and who in the past has given lip service to equal opportunity, does not like to see you get a big contract where you're going to make some money." What he was saying in effect was that laws don't change racial attitudes, and that the Air Force or any other agency can be only as successful in their pursuits as those in the administrative chain will permit. Mr. X's latter opinion could not be corroborated further, but does deserve further study. Additionally, the Gonsalves interview did suggest that SBA local offices were poorly staffed to handle the volume of business that came to it, and that an inordinate amount of time was taken to process those contracts that were eventual-

ly awarded. If this is so, it might be inferred that misconceptions could easily arise due purely to administrative inefficiency.

## CHAPTER IV

### CONCLUSION

This paper has sought to examine briefly the historical background of black and minority business development, to discuss the federal approach to such development, and to review the Air Force experience with one federal program, the 8(a) Program for minority business development and expansion. Historically, minority business development under the free enterprise system has been almost a total failure. Minorities simply have not been given the economic equal opportunity for business development. As a nation we have committed ourselves to change this condition because we believe that, given a chance, minority business can grow to economic significance, and that minority business will act in concert with the priorities of the minority community. This will significantly alleviate racial and economic oppression which is good for the country.

The government has assumed a duty to enhance minority business development and expansion through a variety of financial and managerial assistance programs. One such program is the Section 8(a) Program of the Small Business Act. This program permits government agencies to contract with the SBA, who in turn, can sub-contract the requirement to a minority contractor,

sometimes on a non-competitive basis.

The Air Force experience with this program has been exceptionally good. The Air Force has met and exceeded its monetary goals for the program, and apparently has achieved a greater degree of success in minority contracting than many other federal agencies. However, it must be remembered that the purpose of the program is to foster business ownership and expansion among minorities. Certainly, Air Force money has contributed to this goal. However, the question of how much of an ownership or developmental contribution has been made by Air Force contracts in this program remains unquantifiable. This would require answers to questions concerning the profitability, viability, and long term capability of those firms with which the Air Force has done business. This is obviously beyond the scope of this paper but does deserve further study. At best the answers would be subjective, but there is nevertheless a need to know if exceeding monetary goals, for example, actually contributes to the expressed purposes of the program. If such an inquiry were made, the King study referenced in this paper would be a good place to start. Further, during the course of this study, comments were made that the local SBA offices were inefficient in processing 8(a) contracts either because of poor staffing or willful non support of the program. These allegations could not be substantiated, but seem to also have a basis for further inquiry.

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DEPARTMENT OF THE AIR FORCE

HEADQUARTERS MILITARY AIRLIFT COMMAND  
SCOTT AIR FORCE BASE, ILLINOIS 62225



REF ID: A11111 LGC

9 MAR 1979

SUBJECT: FY 79 Small and Minority Business/8(a) and Set-Aside Goals

TO: ALL MAC OWNED BASES Plus AAVS (Cy to AFs)

(Contracting/Small Business Specialist/Deputy Commander for Resource Mgt)

1. HQ USAF/RDCF has advised that subject goals have not been assigned officially as yet by OSD. However, advance information indicates that each command will be assigned a small business prime contract dollar goal as proposed by each command. MAC proposed \$234,111,000 in FY 79.

2. In addition, a separate goal is being assigned for small business set-asides. This is a new goal and each command is requested to increase the dollar amount of small business set-asides achieved in FY 78 by 10 percent. MAC achieved \$58,870,000 in FY 78. MAC FY 79 goal is \$64,759,200.

3. Each command will also be assigned a combined goal for Section 8(a) and Minority Direct awards. MAC FY 79 goal is \$17,325,000.

4. Accordingly, the attached sheet provides a target for each MAC contracting activity to strive for in the interim until official notice from HQ USAF/RDCF is received in establishing firm goals for all the commands.

FOR THE COMMANDER IN CHIEF

A handwritten signature in cursive script, appearing to read "Charles L. Hyland".

CHARLES L. HYLAND, Col, USAF  
Director of Contracting  
Logistics

1 Atch  
Interim Targets

INTERIM TARGETS

| ACTIVITY   | *SMALL<br>BUSINESS | *SMALL BUSINESS<br>SET ASIDES | COMBINED<br>MINORITY & 8(A) |
|--|--------------------|-------------------------------|-----------------------------|
| ALTUS  | \$ 2.8             | \$ 1.2                        | \$ 550,000                  |
| CHARLESTON   | 10.6               | 3.8                           | 300,000                     |
| DOVER  | 7.9                | 3.5                           | 750,000                     |
| LITTLE ROCK  | 9.8                | 5.6                           | 500,000                     |
| McCHORD  | 16.5               | 7.6                           | 400,000                     |
| McGUIRE  | 10.7               | 4.5                           | 1,100,000                   |
| NORTON   | 18.5               | 6.6                           | 1,280,000                   |
| POPE   | 2.2                | .900                          | 600,000                     |
| RICHARDS-GEBAUR  | .274               | .120                          | 25,000                      |
| SCOTT  | 15.0               | 6.5                           | 900,000                     |
| TRAVIS   | 9.0                | 5.6                           | 2,700,000                   |
| <span style="border: 1px solid black; padding: 2px;">WACC</span> | 41.0               | 14.7                          | 6,850,000                   |
| AAVS   | 1.3                | .140                          | 150,000                     |
| AIRLIFT  | 88.6               | 4.0                           | 1,222,539                   |
| TOTALS   | \$234,174,000      | \$64,760,000                  | \$17,327,539                |
| MAC GOAL   | \$234,111,000      | \$64,759,200                  | \$17,325,000                |

\*Dollars in millions