

# **THE NEW SBA**

## **The President's Management Agenda Results Report**

**July 2004**

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# The “New SBA” -- A Customer-Centered, Results-Driven, Cost Effective Public Institution

## Executive Summary

*SBA Mission.* The U.S. Small Business Administration (SBA) is focused on delivering results to the Nation’s entrepreneurs and small business owners that the President directs, Congress demands, and its customers expect. SBA’s customers, approximately 25 million small businesses in the United States, have told us how difficult it is to start and grow a business, and that it is a tremendous burden dealing with government at every level. SBA’s statutory mission is to “aid, assist, counsel and protect the interests of small businesses....to contribute to the growth of the economy.” As the President has said, our principal task is to break down barriers to small business formation and growth and to create an environment where small business owners and entrepreneurs can succeed.

*President’s Small Business Agenda (PSBA).* Recognizing that small businesses are the backbone of the U.S. economy, President Bush established the following five point small business agenda:

- Provide new tax incentives to make it easier for small businesses to make important job-creating investments;
- Give small businesses more power to provide health care for their uninsured employees, and improve the health care options for employees who already have insurance;
- Tear down the regulatory barriers to job creation for small businesses and give small business owners a voice in the complex and confusing federal regulatory process;
- Save taxpayers dollars by ensuring full and open competition to federal contracts; and
- Provide small businesses with the information they need to succeed.

*SBA Strategic Plan for FY 2003-2008.* In support of this agenda, SBA developed four strategic goals in its Strategic Plan that delivers customer-centered results. They are:

- Improve the economic environment for small businesses,
- Increase small business success by bridging competitive opportunity gaps facing entrepreneurs,
- Restore homes and businesses affected by disaster, and
- Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services.

*Selected SBA Results.* SBA is most proud of the following 12 achievements:

1. Guaranteed 74,169 general business loans in FY 2003 (\$10.1 billion), with 89,000 loans projected for FY 2004 (\$12.3 billion), a 19 percent increase over FY 2003, and the highest level of capital and credit ever provided to the small business community;

2. Provided capital and credit to nearly 17,000 entrepreneurs in FY 2003 and 14,000 in the first nine months of FY 2004 to *start* a business;
3. Helped create and/or retain a projected 682,000 jobs for FY 2004, an estimated 16 percent increase over FY 2003 levels;
4. Facilitated 18,600 appointments between small businesses and government and private procurement officials in a “Business Matchmaking” initiative, which resulted in contracts worth approximately \$17.5 million in the first nine months of FY 2004;
5. Helped small firms receive 23.6 percent of all contract dollars awarded by the government, for a total of \$65.6 billion, a new record in small business contracting;
6. Provided entrepreneurial assistance through a network of resource partners to a projected 2.1 million prospective and actual small businesses in FY 2004;
7. Approved 18,063 disaster loans worth \$614 million during first nine months of FY 2004;
8. Saved an estimated \$6.3 billion in FY 2003 regulatory costs to small businesses by working with regulatory agencies;
9. Ensured equity and fairness in the regulatory enforcement process by conducting 19 hearings and roundtables and reaching out to 120,000 businesses, which helped to save over \$1 billion in abatements, reductions in fines, or waivers;
10. Continued to transform the Agency, focusing most notably on the centralization of the loan liquidation activities into one office (from 69), which reduced SBA costs from \$44 million in FY 2002 to an estimated \$15 million in FY 2006 (a two-thirds reduction);
11. Enhanced SBA’s loan monitoring by recalculating risk ratings and introducing exception and trend reporting to focus resources on problems where there is greatest opportunity to mitigate risk; and
12. Increased and improved our Web presence and provision of information and service to small businesses, most notably through SBA.gov, Businesslaw.gov, completion of E-tran (electronic loan application), and launch of the first phase of the Business Gateway.

*President’s Management Agenda.* To deliver cost effective service under the rubric of the President’s Management Agenda (PMA), government needs to change and undergo reform. This means focusing on the SBA workforce and, by extension, its resource partners that deliver the services small businesses need and want.

Under the PMA, the Administration established a vision and an agenda for government reform to create a government that is:

- Citizen-centered, not bureaucracy-centered;
- Results-driven, not input or only process-oriented; and
- Market-based, promoting -- not stifling -- innovation and competition.

With these underlying principles, the Administration identified five major problems and developed goals to improve federal management and deliver results in the near term. This became the Five Part President’s Management Agenda whose goals are mutually reinforcing and reflect a government-wide commitment to changing how government goes about its business, how it treats the people it serves and what services it provides.

*Transparency and Accountability: Performance Management.* Good government is transparent and accountable. Good government is driven by results, not process. To manage for results, SBA first aligned its goals, objectives and strategies to the President’s Small Business Agenda, then to the Agency’s Strategic Plan and the Administrator’s key initiatives. Second, believing that “what gets measured and rewarded will get produced,” SBA strengthened its field goaling process and communicated the Strategic Plan to each employee, incorporated specific milestones in individual Personal Business Commitment Plans (PBCPs), and scheduled regular meetings with senior leaders and program managers to monitor, review and report on progress. Third, SBA used as the tool of choice an internal Execution Scorecard system in which the government-wide scorecard rating system was replicated for each SBA program, i.e., red, yellow, and green to designate progress. SBA also used this approach for achievement of its PMA activities, resolution of its most critical management challenges, and plans to resolve important audit issues. Fourth, SBA used performance data to change and modify the direction of programs and to reward employees in the performance appraisal process.

*PMA Accomplishments.* Effective June 30, 2004, OMB had given SBA the following scores in Current Status and Progress for the five PMA activities:

	<u>Status</u>	<u>Progress</u>
1. E-Gov	Green	Green
2. Budget Performance/Integration	Green	Green
3. Financial Management	Red	Green
4. Human Capital	Yellow	Green
5. Competitive Sourcing	Yellow	Yellow

While SBA continues to implement the reform efforts envisioned by the PMA, the Agency still has a way to go. With continually shrinking resources, SBA is addressing long standing management challenges in order to become a high performing organization that is more responsive, more partnership-based, and more reliant on industry best practices of outsourcing, centralization, re-engineering and performance management. SBA is committed to strengthening and leveraging the knowledge, skills and abilities of its most important asset: its people. The “New SBA” is more manageable, partnership-based, results-oriented, market-driven, technology-enabled and cost effective.

This PMA Results Report describes SBA’s progress in implementing the President’s Management Agenda over the past several years and delivering to its small business customers results that matter.

## Introduction

Small businesses are vital to the Nation's prosperity and reflect the hard work of the American people. There are approximately 25 million small businesses in the United States. They employ just over half of all private sector workers, pay 44.3 percent of total U.S. private payroll, create seven out of 10 net new jobs in America and account for more than half of the output of our economy. Total small business wealth amounted to \$8.3 trillion, accounting for 42.8 percent of total business wealth of \$19.4 trillion in 2000.

By virtue of their size, small businesses have greater flexibility and are quicker to respond to new opportunities than larger firms. And the fact that new firms are typically small, and carry new ideas, make small entrepreneurial firms vital to economic growth. Small firms produce 13 to 14 times more patents per employee than large patenting firms.<sup>1</sup>

This is why is why the President calls them the “economic engine of the U.S. economy” and has taken important steps to assist small businesses and the people they employ by reducing taxes, encouraging investment and removing obstacles to growth.

## The Administration’s Small Business Agenda

The Administration believes that low taxes and clear, sensible regulations are essential to the nearly 25 million small firms in America. Equally important, the Administration believes that small businesses must have access to affordable health care insurance and cost effective ways to deal with regulations. For those small businesses that sell to the Federal Government, the contracting process should be fair, open and straightforward. Finally, for each and every entrepreneur and small business, government information, service, and transactional help should be accessible, easy to find and use, and affordable.

Recognizing that small businesses are the backbone of the U.S. economy, the Administration established the following five point agenda for small businesses:

- Provide new tax incentives to make it easier for small businesses to make important job-creating investments;
- Give small businesses more power to provide health care for their uninsured employees and better health care options for all employees;
- Tear down the regulatory barriers to job creation for small businesses and give small business owners a voice in the complex and confusing federal regulatory process;
- Save taxpayers dollars by ensuring full and open competition to government contracts; and
- Provide small businesses with the information they need to succeed.

The U.S. Small Business Administration (SBA) recognizes the President’s Small Business Agenda as part of its mission and has made significant contributions to each area of the Agenda.

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<sup>1</sup> U.S. Small Business Administration, Office of Advocacy. Moguee, Mary E. (2003): “Foreign Patenting Behavior of Small and Large Firms: An Update.”

## SBA Mission and Strategic Goals

As stated in SBA's Strategic Plan, the Agency mission is to "*Maintain and strengthen the Nation's economy by enabling the establishment and viability of new and existing small businesses and by assisting in the economic recovery of communities during disasters.*" To achieve this mission, SBA has developed the following four Strategic Goals:

1. Improve the economic environment for small businesses,
2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs,
3. Restore homes and businesses affected by disaster, and
4. Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services.

Under its Strategic Plan, SBA focuses primarily on two outcomes: increased value and reduced costs. For each goal, SBA tracks and monitors production statistics that describe the value added of information and services for small businesses and reports on internal process improvements mandated by the PMA that lead to more cost effective and modernized operations.

## SBA FY 2003-2004 Results

SBA is committed to transforming the way it does business and producing services that small businesses care most about. SBA achieved the following *selected program results* that embody its commitment to increased value and reduced costs.

### Capital and Credit

- Guaranteed 74,169 general business loans in FY 2003 (\$10.1 billion), with 89,000 loans projected for FY 2004 (\$12.3 billion), a 19 percent increase over FY 2003, and the highest level of capital and credit ever provided to the small business sector;
- Compared to FY 2002 levels, increased the number of loans to
  - African Americans by 79 percent,
  - Hispanic Americans by 42 percent,
  - Asian Americans by 31 percent,
  - Native Americans by 18 percent,
  - Women by 37 percent, and
  - Veterans by 22 percent;
- Provided capital and credit to nearly 17,000 entrepreneurs in FY 2003 and 14,000 in the first nine months of FY 2004 to *start* a business;
- Helped create and/or retain a projected 682,000 jobs for FY 2004, an estimated 16 percent increase over FY 2003 levels.

### Business Matchmaking and Government Contracting

- Facilitated 18,600 appointments between small businesses and government and private procurement officials in a "Business Matchmaking" initiative, which resulted in contracts worth approximately \$17.5 million in the first nine months of FY 2004;

- Helped small firms receive 23.6 percent of all contract dollars awarded by the government, for a total of \$65.6 billion, a new record in small business contracting.

#### Entrepreneurial Development

- Offered a projected 2.1 million entrepreneurs business counseling and technical assistance through one or more of the Agency's resource partners' counseling and training programs, in which
  - More than 687,000 received technical assistance through the Small Business Development Center program (SBDC);
  - More than 474,000 received assistance from the volunteers of SCORE Counselors to America's Small Business;
  - More than 688,000 used the Web based Small Business Training Network, more than triple the number from the previous year; and
  - More than 106,000 received assistance from SBA Women's Business Centers.

#### Transformation

- Began the centralization of the loan purchase and liquidation processes, reducing the cost by over 65 percent (from \$44 million annually in FY 2002 to a projected \$15 million annually in FY 2006) and freeing district employees to focus on the delivery of targeted programs and services rather than liquidation functions;
- Implemented an improved loan monitoring system that reduces risk, and may reduce the cost of our programs, making more funding available to the small business community.

#### Disaster Assistance

- Made 25,856 disaster recovery loans for \$885 million nationwide during FY 2003 and 18,063 loans for \$614 million during first nine months of FY 2004;
- Completed special programs begun in FY 2002 to provide disaster recovery loans to victims of the September 11, 2001 attacks on the World Trade Center and the Pentagon. (SBA has made \$526 million in direct disaster loans to individuals and businesses that suffered from those attacks. In addition, in FY 2003 alone, SBA provided more than \$1.5 billion in loan guarantees to firms that were impacted by 9/11 through the Supplementary Terrorist Activity Relief (STAR) program.)

#### Regulatory Advocacy and Access to Information

- Saved small businesses an estimated \$6.3 billion in regulatory costs by working with federal regulatory agencies;
- Ensured equity and fairness in the regulatory enforcement process by conducting 19 hearings and roundtables and reaching out to 120,000 businesses, which helped to save over \$1 billion in abatements, reductions in fines, or waivers;
- Offered small businesses easier access to business related information in SBA.gov (Web site served a million customers each week) and improved access to legal and regulatory information to start and grow their businesses through the enhanced Businesslaw.gov portal (Web site was accessed a million times a month and saved an estimated \$109 million in FY 2003).

# **SBA Strategic Goal Achievement**

## **GOAL 1: Improve the Economic Environment for Small Businesses**

Breaking down the legal and regulatory barriers, as well as implementing the other four elements of the President's Small Business Agenda (PSBA), is a primary means of creating a business-friendly environment for business formation and growth. Health care costs, taxes, lack of a level playing field in accessing government contract possibilities, and inadequate access to the right information at the right time tend to impede small business success and affect negatively the economic environment. SBA's primary mission is to break down these barriers to success.

In a June 2004 National Federation of Independent Businesses (NFIB) survey of small business problems and priorities, 75 problems were evaluated and organized into 10 different problem "clusters." Compared to the last time the survey was conducted in 2000, "Costs" displaced "Taxes" as the most severe problem in the 2004 survey. Tax-related problems comprised the second most severe cluster followed by "Employee-related" problems. The "Regulations," "Management," and "Finance" clusters round out the first six clusters.

### **Tax Incentives**

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Jobs and Growth Act) was signed into law by President Bush. The Treasury Department calculated that this legislation immediately reduced the tax liability of approximately 25 million small business owners, totaling about \$75 billion.

During FY 2004, as general advocates for small business, SBA sponsored a series of educational roundtables throughout the country on the importance of reducing taxes on small businesses to improve the economic environment. SBA assisted in the completion of 17 tax conference events that educated both the public and the small business community about the many advantages of the Administration's plan to support business owners and entrepreneurs with tax incentives.

### **Affordable Health Care**

In addition to reducing the tax burden and opening markets, the Administration's Small Business Agenda calls for reducing the costs of doing business in America. SBA has joined in this fight to help make health care affordable by educating small businesses and business advocates on the Administration's call for Association Health Plans (AHPs) to give America's working families greater access to affordable health insurance and health savings accounts (HSAs), which combine low-cost, high-deductible health insurance with tax-free savings accounts to pay for health care expenses. The Administration has also proposed to make insurance premiums for HSAs tax deductible.

In response to the Administration's desire to give small business owners more power to provide health care for their uninsured employees and improve the health care options for

employees who already have insurance, SBA conducted regional roundtables consisting of 10-14 participants, including SBA Regional Administrators, congressional offices, officials from the Departments of Labor (DOL) and Health and Human Services (HHS), small business leaders, trade associations and regional chamber of commerce to educate the public on the advantages of the National Health Savings Accounts and Associated Health Plans. Affordable health care was the single most important issue for small businesses in the 2004 poll conducted by the NFIB.

## **Regulatory Advocacy**

SBA is also working to ensure that federal regulations do not unduly handicap America's entrepreneurs by streamlining regulations, making them easier to find and understand, and reducing paperwork. During the past four years, the Administration estimates it has slowed the growth of burdensome new rules by an estimated 75 percent.

During FY 2003-2004, SBA's Office of Advocacy gained more strength by carrying out Executive Order 13272, which provides Advocacy with the authority to review federal regulator policies on how to take small entities into consideration in rulemaking procedures; obtain draft rules prior to their publication for public comment; and receive proper consideration of written comments to agencies.

The Office of Advocacy also delivered on Executive Order 13272's requirement to train federal agencies on how to consider their impacts on small business when developing new regulations. The training follows the May 2003 release of a compliance guide entitled "A Guide for Government Agencies: How to Comply with the Regulatory Flexibility Act."

These efforts have clearly paid off as American small businesses realized \$6.3 billion in cost savings last year. That money would have gone to comply with overly burdensome federal regulations had not Advocacy worked with federal agencies to find effective and less burdensome regulatory alternatives. The regulatory savings from the years 2001 – 2003 total over \$31 billion.

Advocacy's groundbreaking research demonstrates to academics and policy makers that small entities play a vital role in the nation's economy. We know that small businesses represent 99.7 percent of all employers and employ half of all private sector employees. We also know through research contracted by the Office of Advocacy that small businesses pay 60 percent more to comply with federal regulations than their large counterparts—nearly \$7,000 per employee annually. Cumulatively, Advocacy's regulatory interventions and research contribute to reducing regulatory burden for small entities.

Success in achieving burden reduction at the federal level led to an initiative to reduce regulatory burden at the state level. For the past two years, Advocacy has sought to promote regulatory flexibility legislation in each of the 50 states. Several states have already adopted Advocacy's model legislation, or some version thereof. Other states have implemented executive orders accomplishing the same. Advocacy's Regional Advocates have been instrumental in providing state lawmakers and small entity representatives in the states with the information they need to move forward on this initiative.

Through regularly held roundtables, a monthly newsletter, congressional testimony, conferences, press releases, regulatory comment letters, its Regulatory Alerts Web page, and other outreach tools, Advocacy provides small entities with the information they need to succeed. Providing these tools helps small entities navigate the federal rulemaking process and enables Advocacy to receive direct input from small entities about the regulations that are likely to result in serious economic impacts.

## **Access to Information and Compliance Assistance**

Once SBA has intervened with the regulatory agencies to consider the differential impact of regulations on small business, the next step is to help small firms find, understand, and comply with government laws and regulations, which impose a 500 billion dollar/8 billion hour annual burden on businesses, reducing their chances of success and their opportunities for growth. To reduce the burden, SBA created Businesslaw.gov - a cross-agency, intergovernmental Web portal that helps businesses find, understand, and comply with applicable laws and regulations by providing a single point of access to all of the federal, state and local government information, services and transactions needed to start, run and grow a business.

SBA improved the functionality of the site in three major ways, by building (1) new “gateways” of information for each of the states, (2) interactive digital guides or expert tools, and (3) a functioning prototype of a standardized Web service.

First, "gateways" for each of the 50 states, Guam and Puerto Rico make it even easier for entrepreneurs to quickly access important information, connect to the growing number of online transactions and business wizards, and find sources of in-person business and legal assistance that exist in each entrepreneur's local community.

Based on FY 2003 estimates that Businesslaw.gov was accessed approximately 290,000 times per week by approximately 15,000 users, and that each of the 15,000 users saved one hour per year of their own time at \$40 per hour and one hour per year in attorney fees at \$100 per hour, the site enabled businesses to save an estimated total of over \$109 million in FY 2003.

The FTC estimates that in 2001 the average cost for a firm engaged in intellectual property litigation was \$499,000. For a small firm, the time, money and emotional energy taken up by legal disputes and litigation can be devastating. Businesslaw.gov allows business owners to educate themselves about such issues before they become a problem. Because of the Web, help desk operators located in government offices and educational institutions nationwide also now have 24/7 instant access to easy-to-find-and-understand information designed to answer questions involving related to any aspect of the life cycle of a business.

Second, the development and *delivery of online tools* that provide businesses with personalized assistance is a huge improvement over the old method of delivering compliance assistance information with static text that forces businesses to do much of the research on their own. Examples include the Alien Visa Classification eTool, OSHA Emergency Evacuation Procedures eTool, and EPA's Auto Dismantler & Recycler Environmental Audit Advisor.

Third, Businesslaw.gov offers the first integrated federal and state *Web service* to permit businesses to register their business and receive a federal Employer Identification Number at the same time. Businesslaw.gov's integrated online version offers businesses an instant provisional EIN as well as simultaneous business registrations at the state level, saving many hours of research, time filling out applications, and a substantial waiting period.

By October 2003, 15,000 integrated state/federal registration/EIN applications had been processed, creating a "single face of government" and saving business owners an estimated \$600,000 on complying with the federal requirements alone. We estimate a similar savings from using an electronic process for the state portion of the business registration process.

By using the Web as a platform for customer service, SBA is able to extend its outreach to all 25 million small businesses, each of which must comply with laws and regulations to succeed. Further, because SBA is a logical place for businesses to seek information, *Businesslaw.gov* provides a cost-effective means for government regulatory agencies to disseminate compliance information and assistance.

By using the Internet as a linking tool, referral engine and directory of services, Businesslaw.gov has helped to create a government that is more transparent, accessible and accountable. In 2003, the site was accessed 1.3 million times per month – a 300 percent increase over 2002. The site is now linked to as an authority on U.S. business law by professional organizations, government agencies and trade associations in the United States and abroad, in multiple languages, spanning the full spectrum of industries and interest groups. Some of the most popular sections of the site include "Contact Congress," "Demand Regulatory Enforcement Fairness," "Getting Legal Help" and the "Discussion Forum."

## **Fairness and Equity in Regulatory Enforcement**

At the end of the regulatory assistance supply chain, small businesses must comply with a governmental legal or regulatory demand. Unique at the Federal Government level, SBA's Office of National Ombudsman was created to ensure equity and fairness in the federal regulatory enforcement process. Successful outcomes of the office include a 10 percent decrease in the number of federal regulatory enforcement actions taken against small business, a five percent increase in the number of enforcement actions in which the civil penalty is reduced or waived, and an annual customer satisfaction rating of 85 percent for complaint filers.

Projected FY 2004 accomplishments of the National Ombudsman's Office include:

- As reported by federal agencies, saving in excess of \$1 billion in abatements, reductions or waivers;
- Conducting 19 hearings and roundtables and through media, reaching out to 120,000 small businesses;
- Over 1,000,000 Web page 'hits';
- Hosting two Inter-Agency meetings;
- Over 350 telephonic and e-mail customer assistance actions;
- Hosting five Regulatory Fairness Board member meetings/conference calls;

- Writing/distributing six E-Blast electronic newsletters to 2800 subscribers for each issue; and
- Publishing an Economic Impact Study.

## **GOAL 2: Increase Small Business Success by Bridging Competitive Opportunity Gaps**

An entrepreneur often requires access to the right kind and amount of capital and credit, management and technical assistance (counseling, training, education and information), and federal procurement opportunities including “set-aside” assistance. SBA programs have a social as well as an economic purpose. In helping small entrepreneurs start and grow their businesses, the Agency not only benefits the firm but also helps create communities and foster economic development. To accomplish its mission, SBA reaches out to segments of the population that have experienced barriers in the marketplace and yet possess great untapped potential.

SBA defines its customers as entrepreneurs or business owners who have been generally ignored or under-served by the marketplace. This is where the Agency bridges the “gap,” particularly for those individuals who are viewed as “higher risk” borrowers, those who are lacking in business know-how, are unable to take advantage of the Federal Government procurement marketplace, and/or are without easy access to government information and service.

### **Providing Growth in Capital and Credit**

SBA provides business loan assistance to applicants for whom the desired credit is unavailable on reasonable terms and conditions from non-federal sources without SBA assistance, taking into consideration the prevailing rates and terms in the community in or near where the applicant conducts business, for similar purposes and periods of time. In that sense, SBA is a “gap lender” that may guarantee loans to borrowers who do not have a credit history, cannot offer standard collateral, or who present higher risk of loss. Additionally, SBA-guaranteed credit may be extended for longer periods of time than loans without an SBA guaranty.

In FY 2004, SBA’s programs increased small business access to capital and credit, particularly for startup firms (i.e., firms less than or equal to 24 months old), women and minorities, and exporting firms, thereby contributing significantly to economic development. SBA’s finance programs also contributed to the creation of a projected 682,000 jobs, up 16 percent from FY 2003. The Agency increased its efficiency in loan processing by using electronic media and centralizing loan functions and improved its lender oversight.

Lending. Based on nine months data for FY 2004, SBA projects that it will successfully increase access to capital to a record number of small businesses through the Agency’s 7(a) and 504 lending programs. Most notable were increases of 22 percent to women, 28 percent to minorities, 20 percent to veterans, and 25 percent for small business exporters.

	<b>FY 2003 Actual</b>	<b>FY 2004 Projection</b>	<b>% Change FY 2003 vs. 2004 ( projection)</b>
<b>7(a) Loans</b>	67,306	80,300	19%
<b>504 Loans</b>	6,863	8,700	27%
<b>7(a) &amp; 504 Loans to Veterans</b>	7,244	8,700	20%
<b>7(a) &amp; 504 Loans to African American</b>	3,765	4,800	27%
<b>7(a) &amp; 504 Loans to Hispanic American</b>	6,103	8,000	31%
<b>7(a) &amp; 504 Loans to Asian American</b>	9,494	12,400	30%
<b>7(a) &amp; 504 Loans to Native American</b>	789	792	0%
<b>7(a) &amp; 504 Loans to Women</b>	15,463	19,000	22%
<b>7(a) &amp; 504 Loans to Rural Areas</b>	13,112	13,700	4%
<b>Export Loans</b>	1,677	2,100	25%
<b>Jobs Created &amp; Retained</b>	587,944	682,000	16%

E-tran. To improve upon the Agency's electronic loan origination system (E-Tran), SBA adopted criteria outlined in the President's Management Agenda for E-government regarding "best-practice" business to government electronic transactions that improved upon the Agency's electronic loan origination system (E-tran). Specifically, the PMA prioritizes the minimization of burden on business by re-using data previously collected or using Extensible Markup Language (XML) or other open standards to receive transmissions.

In the spirit of this guidance, SBA published E- Tran XML data specifications documentation and facilitated working sessions with private sector loan documentation software vendors to enable the seamless transmission of loan origination data from the desktops of our lending partners to the Agency's financial systems. The Agency implemented the first successful public/private E-Tran XML transaction in May of 2004, with lending partners reporting a 24-hour reduction in turnaround time to deliver small business capital to creditworthy borrowers.

International Trade. SBA's International Trade Loan program assists small businesses in obtaining loans that would not otherwise be available to them because of the reluctance of domestic lenders to issue trade finance loans to small businesses. United States small businesses account for 30 percent of exports. Small businesses help balance the United States trade deficit. In FY 2004, we signed an Memorandum of Understanding (MOU) with Ex-Im Bank to support small exporters more effectively.

In the export technical assistance area, we provided counseling to 3,425 small business exporters; conducted 53 E-TAP (Export Trade Assistance Partnership) sessions, offering training to 805 small business participants, and trained 10,325 small business clients. The Agency also

participated in 165 trade events for small business in which 31,699 small businesses were trained and recruited 80 firms for trade missions/trade shows. At the same time SBA staff held 143 events in which 3,891 lenders received export finance training. In FY 2004, as indicated by the chart above, SBA projects that it will exceed the number of export loans approved over FY 2003 by approximately 25 percent.

SBA participated in interagency trade capacity-building working groups. This effort, led by the Office of the U.S. Trade Representative, facilitated trade negotiations for the United States - Southern Africa Free Trade Agreement, Central America Free Trade Agreement and negotiations with the Andean Pact countries of South America. Trade liberalization can especially benefit small businesses by helping them reduce the impact of trade barriers.

Rural Business Investment. Under the Economy Act, SBA assisted the Department of Agriculture to establish the Rural Business Investment Program Project (RBIP), which is geared toward attracting investments in the rural areas of the country. USDA published an interim final rule and the application package for the RBIP and expects to accept applications later this fiscal year.

Centralization of Lending Functions. During the second quarter of FY 2004, 13,000 liquidation and purchase files were shipped to the new National Guaranty Purchase Center in Herndon, VA. The centralization of the loan purchase and liquidation functions reduces overall cost and brings increased consistency in the application of policy. The number of staff needed in the center is significantly less than when this function was performed in 70 offices across the country. The banking industry has commended the Agency's efforts in this initiative.

By end of FY 2004, all 504 loan origination functions will be centralized in the Agency's processing center in Sacramento, CA. Centralization of this program will result in consistent policy interpretation and a better and timelier response to the Certified Development Companies, which in turn will increase their response time and process greater loan volumes.

Lender Oversight. Although SBA integrated the Loan Monitoring System (LMS) into its operations late in FY 2003, LMS was significantly enhanced by Dun and Bradstreet (D&B) in FY 2004. The 7(a) and 504 databases were further divided for each program for a total of six databases. Further, data and information of LMS were used to develop the off-site risk rating approach, which re-calculates the risk rating with each quarterly data update from D&B. Exception and trend reporting were introduced to immediately identify problems and focus resources where there is the most opportunity to mitigate risks.

## **Entrepreneurial Development**

Besides inadequate access to capital and credit, perhaps the single most important impediment to starting or expanding a small business is lack of access to information. To succeed, entrepreneurs need training and technical assistance in financial management, bookkeeping and marketing, among other skills, to start or expand their business.

The SBA fills gaps in the area of training and technical assistance, reaching out to new and nontraditional markets through its SBDCs, SCORE volunteers, WBCs, and other sources such as U.S. Export Assistance Centers (USEACs).

SBA small business counseling and technical assistance programs provided help to 1.5 million entrepreneurs in FY 2003 and an estimated 2.1 million in FY 2004. The Agency is most proud of both production statistics and transformation/modernization efforts to change the way SBA operates. For example, the Agency shared resources across programs, conducted cross-training, realigned functions, standardized the definition of “client,” conducted economic impact and customer satisfaction surveys, ranked programs based on performance, performed a needs assessment of small firms, and used technology to reach more small firms and improve service.

Specifically, SBA, in conjunction with its resource partners:

- Counseled an estimated 54,000 long-term clients (more than 5 hours of counseling), who generated after counseling a total of \$3.9 billion in sales and 46,688 new full time equivalent jobs, s reflected in the SBDC 2000-2001 biennial study. Based on clients’ assessments, SBDCs estimate that an additional \$4.3 billion in sales and 34,000 jobs were saved partially as a result of the counseling. Based on tax revenues from firms counseled, the benefit to cost ratio was \$2.20 to \$1.00.
- Increased operational efficiencies for the WBC program by having SBDC financial examiners do the WBC financial exams, realigned SBDC program manager geographic territories into regional jurisdictions aligned with SBA regions for purposes of identifying regional economic and performance trends, and developed and implemented an online program announcement to streamline the SBDC program application process.
- Developed a plan to “rank” SBDCs based on performance, best practices and overall management efficiencies to determine recipients of FY 2006 supplemental funding requests.
- Increased the availability of online counseling through both SCORE and SBDC programs. Thirty percent of all SCORE counseling is now performed online. Incorporated within the SBDC Program Announcement a requirement for on-line counseling in 10 pilots.
- Incorporated a client registration and evaluation process for online courses on the Small Business Training Network (SBTN) and increased by 50 percent the availability of online courses for small businesses through the SBTN. Approximately 33 percent of the projected 2.1 million clients in FY 2004 are being trained by this “virtual campus.”
- Launched a teen Website, which had more than 33,000 visitors in its first month.
- Doubled the number of visitors to the online WBC from one to two million by improving content and making the Website available in nine languages. Opened 11 new WBCs and made five sustainability grants to WBCs that had graduated from their initial grants.

- Using a sampling of SBDC, WBC and SCORE clients, began implementation of the first Entrepreneurial Development Impact Survey in FY 2004 to establish a baseline of client demographic and business information as part of a three year study.
- Developed uniform client definitions to track more accurately technical assistance clients and developed a small business needs assessment process to improve and evaluate programs.

## **Government Contracting and Business Development**

The Small Business Act establishes a government-wide goal for small businesses of 23 percent of the federal prime contract dollars awarded each year. SBA is committed to giving small businesses a fair chance to bid on contracts for government work, a task made more difficult by streamlining of government procurement regulations, bundling, and large “off the shelf” contracts. New federal regulations issued in 2003, however, have gone far to mitigate the effects of contract bundling on small businesses.

SBA is particularly proud of the following results:

- The Administration met its statutory commitment to provide no less than 23 percent of contracting dollars to small businesses. In FY 2003, small firms supplied more than 23 percent of the total value of federal prime contracts, representing about \$65.5 billion – an all-time high.
- Small disadvantaged businesses supplied seven percent of all federal prime contracts (about \$19.4 billion) in FY 2003 – an all-time high.
- Women-Owned small businesses supplied nearly three percent (2.98 percent) of all federal prime contracts (about \$8 billion) in FY 2003 – an all-time high.
- SBA and Hewlett-Packard Small Business Foundation held “Business Matchmaking” events in 10 cities across the country, which produced 18,600 appointments, training for over 7,200 small firms, and \$17.5 million in contracts for the first nine months of FY 2004.
- SBA successfully advocated to publish four major legislative and regulatory changes in FY 2004 to assist the Nation’s small business community:
  1. Tighter contract bundling limitations and review requirements were enacted;
  2. Small business subcontracting requirements were strengthened;
  3. The Service Disabled Veterans Small Business Program requirements were drafted and published government-wide in record time following passage of the legislation; and
  4. The HUBZone Program was expanded to include Native American communities, broadening participation of distressed communities in the program and encouraging economic development.
- SBA established a cross-functional, no cost training program with the Defense Acquisition University to educate agencies on small business programs and to provide acquisition training consistent with the respective missions of governmental departments and agencies.

- To increase and diversify contracting opportunities for small businesses, SBA established a Marketing and Outreach System (MOS) with three major initiatives: (1) Training and Counseling; (2) Subcontracting Assistance; and (3) Supplemental Procurement Center Representative duties.
- SBA certified 1,000 new 8(a) and SDB firms this year with reduced application and certification processing times. SBA reduced SDB processing time by 75 percent, from an average of 120 days to 30 days, and 8(a) applications by 60 percent, from 80 days to 23 days. The delinquency rate, which was at a high of 28 percent in February 2004, was at less than two percent in July 2004.
- SBA will complete the 8(a) electronic application process late in FY 2004, reducing the paperwork burden and improving the efficiency of government processors. Business owners will soon enter the information directly into the system, thus eliminating copying, collating and mailing costs. The government processors will now have *complete* applications, thus eliminating the entire screening period and allowing them to provide business development assistance more quickly to the applicants.
- SBA signed the first agreement with the State of Alaska to allow 8(a) firms to use government surplus property and is working with the National Association of State Agencies for Surplus Property to sign MOU's with all state members. SBA estimates that 3 to 50 pieces of surplus property, per district office, ranging in value from \$200 pallet jacks to multi-million dollar floating vessels, could be transferred annually to 8(a) firms.
- SBA certified more than 2,200 firms under the HUBZone Program, yielding a portfolio of more than 10,500 firms, representing revenue of \$18 billion and employment of 146,000 people, including 101,000 residents of distressed communities.
- SBA increased the value of federal contracts awarded to HUBZone-certified firms from \$663 million, or 0.33 percent of total awards in FY 2000, to \$3.4 billion, or 1.23 percent, in FY 2003. Based on our estimate that \$133,500 of contract revenue supports one job, FY 2003 contract awards to HUBZone-certified firms supported 25,468 jobs, including 17,828 jobs held by residents of distressed communities.
- SBA developed an electronic process for monitoring federal contract requirements that could have been set aside for award under the HUBZone Program, but were not. The system advises procurement officials of 'missed opportunities' to award contracts to HUBZone vendors, and prompts them to look to such firms to fulfill future requirements. Through this initiative, we are supporting the government-wide E-Gov initiative and using technology to leverage scarce resources to help small firms pursue federal contract opportunities more effectively.
- SBA implemented a fully electronic process for random examination of HUBZone-certified firms, providing for comprehensive review of a five percent sampling of the portfolio. This will ensure compliance with eligibility requirements increasing program integrity.

- SBA is implementing Executive Order 13329, Encouraging Innovation in Manufacturing, which seeks to use the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs to increase the level of federal funding for manufacturing related research and development.

### **GOAL 3: Restore Homes and Businesses Affected by Disaster**

When a disaster strikes, SBA offers homeowners, renters, and businesses (large and small) direct loans as the primary form of federal assistance to cover non-farm, disaster related losses. This is our only program not dedicated solely to small businesses.

SBA is a critical source of economic stimulation in disaster-ravage communities. By offering victims timely, easy to access, and cost-effective help, the Agency eases their fears and gives them hope for the future. Through June 30, 2004, SBA has approved 18,063 disaster loans for a total of \$613,658,700. There have been 172 disaster declarations this fiscal year. SBA is meeting or exceeding all of its output goals, processing well within defined goals and achieving achieved field presence within three days almost 100 percent of the time in all four Area Offices. During the course of this fiscal year, SBA's Office of Disaster Assistance (ODA) implemented its new 5 year Strategic Plan, as well as placed into limited production and testing the Disaster Credit Modernization System, ODA's new electronic loan processing system. This system will ultimately allow for paperless home loan processing, resulting in increased efficiency and customer service. It is estimated that government will save an estimated \$69 million over nine years, primarily in the areas of travel, postage and shipping, and the shutting down of the current loan tracking and processing systems.

### **GOAL 4: Ensure that all SBA Programs Operate at Maximum Efficiency and Effectiveness**

This goal in SBA's Strategic Plan is designed to improve internal processes and Agency management and oversight by implementing the PMA, a government wide reform effort launched by the Administration in July 2001. During the past three years, SBA has continued to implement a rigorous managing for results process to ensure transparency and accountability for delivering value to its customers and reducing costs. Good government is driven by results, not process, but effective and efficient processes enable the delivery of meaningful results.

To manage for results, SBA first aligned its goals, objectives and strategies to the President's Small Business Agenda, then to the Agency's Strategic Plan and the Administrator's key initiatives. Second, believing that "what gets measured and rewarded will get produced," SBA strengthened its field "goaling" process and communicated the Strategic and annual Performance Plans to each employee; incorporated specific milestones in individual Personal Business Commitment Plans (PBCPs); and scheduled regular meetings with senior leaders and program managers to monitor, review, and report on progress. Third, SBA used as the tool of choice an internal Execution Scorecard system where the government-wide scorecard rating system was replicated for each SBA program, i.e., red, yellow, and green to designate progress. SBA also used this approach for achievement of its PMA activities, resolution of its most critical management challenges, and plans to resolve important audit issues. Fourth, SBA used performance data to

change and modify the direction of programs and to reward employees in the performance appraisal process.

The Agency is excited about its vision for building the “New SBA,” modernizing and cutting costs, while serving millions of small business customers each year. As the “New SBA,” the Agency has transformed itself into a customer-driven, results-oriented, cost effective organization. Most notably, performance does count at the SBA. SBA was one of four agencies praised by the National Academy of Public Administration (NAPA) for making concerted efforts to enhance the performance management programs for executives, managers and supervisors. NAPA singled out SBA for successfully linking the performance expectations of its leaders and managers to the Agency’s goals and cascading those performance expectations throughout the organization through the use of the Execution Scorecard and Personal Business Commitment Plans.

Implementing the PMA, we have accomplished the following:

- Developed a new 5-year Strategic Plan to identify our priorities and to link our activities to results.
- Began implementing SBA’s transformation plan to realign our resources with our evolving programs:
  - Streamlined and centralized the majority of SBA’s loan making activities, resulting in more timely decisions for participating lenders and small business customers, improved consistency in applying our policies and procedures, and lower operating costs.
  - Streamlined and centralized loan guaranty purchases, servicing and liquidation activities, resulting in increased collections and lower operating costs.
  - Freed-up employees previously working on these “backroom” activities, and with the cross-skills training provided, we have now focused substantial additional resources to directly serving our small business customers nationwide.
- Implemented increased accountability for results at all levels within the organization through the direct alignment of performance with strategic goals.
  - Performance agreements for all employees have been directly aligned with SBA’s goals, quantified using outcome-oriented measures, and included specific PMA objectives where appropriate.
  - Developed and released an internal “Execution Scorecard” to regularly monitor and measure achievement of key milestones toward principal goals and objectives.

To create an organization that values transparency and accountability, SBA implemented a managing for results process that begins with a leadership vision “from the top,” aligns goals to activities, demands commitment to transparency and accountability, and rewards results. SBA will continue to:

- Align activities to its strategic goals and long term objectives, and establish milestones and performance metrics so that each employee understands the definition of success;

- Link costs and results within budget requests, providing transparency and accountability for using performance information to make better management decisions;
- Implement the Execution Scorecard internally and meet monthly with the program managers to monitor progress and measure Agency success and report on level of mission accomplishment;
- Translate into action the long term objectives of the Strategic plan and cascade this action throughout all levels within SBA by monitoring Personal Business Commitment Plans;
- Use the Personal Business Commitment Plan to link individual achievement to organizational success, as described in the Strategic Plan, and measure performance against strategic goals and results achieved;
- Establish and execute a comprehensive human capital succession planning agenda that addresses future senior management needs;
- Align and execute SBA's transformation plan to meet its future workforce needs; and
- Address more effectively all identified audit and financial management weaknesses and major management challenges.

## **President's Management Agenda Activities**

### **E-Gov PMA Status**

In the third quarter FY 2004, SBA received from OMB a Green for both Status and Progress for the following reasons:

- As required, SBA implemented major IT investments within 10 percent cost, schedule and performance targets.
- SBA improved its security protection of its IT resources as noted by Congress' Security rating, which ranked SBA eighth among the 24 major federal departments and independent agencies.
- SBA strengthened existing processes to ensure that future IT investments align with the agency's mission and vision by establishing the Enterprise Architecture Technical Review Board and creating the Business Technology Investment Council (BTIC) Advisory Committee, co-chaired by the DCIO and DCFO.
- SBA realigned OCIO resources to better serve SBA, including the approval of the reorganization, Office of E-government, and a Security Office.
- SBA successfully implemented an initial phase of the Business Gateway that will serve as a one stop resource for small business in dealing with government.
- SBA centralized its monitoring of its infrastructure through its Network Operations Center to more effectively and efficiently manage SBA's enterprise computing platform by adopting a more proactive approach to network maintenance, management and monitoring.

- SBA continued its commitment to E-government activities as illustrated by participation and contributions to 18 of the 24 cross-government projects.

## **Financial Management PMA Status**

In the third quarter FY 2004, SBA received from OMB a Green in Progress and a Red in Status, due to problems with the FY 2003 audited financial statement. During the year, SBA continued to make progress in addressing the issues that resulted in a disclaimer in the FY 2003 financial statement. Achievements include the following:

- SBA is on target to meet the statutory 11/15/04 deadline for Agency financial statements.
- SBA has addressed all identified audit findings and financial weaknesses, including improved internal control over subsidy modeling and re-estimates, increased accountability and accuracy of financial information, improved control over loan program funds, and improved documentation of financial management procedures and controls.
- SBA laid the groundwork for the upgrade of the Oracle administrative accounting system that will be implemented in FY 2005, to improve internal controls even further because of better auditing capabilities and further reduction of administrative accounting operational costs, which in turn will be reflected on the overall program costs.
- SBA conducted 20 Quality Service Reviews (QSRs) of selected field offices, which cover the operational and compliance phases of SBA's mission.

## **Budget and Performance Integration PMA Status**

In the third quarter FY 2004, SBA received from OMB a Green in both Status and Progress. Some of the key factors for OMB's assessment include the following:

- SBA is using performance information to monitor program activities and important management initiatives monthly using an internal Execution Scorecard. It also has developed a marginal cost methodology which will be used as part of the process of justifying program funding request changes.
- SBA integrated the Program Assessment Rating Tool (PART) results and performance information in its FY 2005 budget request.
- SBA used activity-based cost information in FY 2005 budget policy recommendations for credit programs.
- SBA established reasonable but challenging performance goals for each district based on consistent methodology.
- SBA used the Execution Scorecard as the tool to monitor and report on performance throughout the Agency.

- SBA changed its format for reporting of costs and results, offering the public increased transparency in the full cost of achieving strategic goals and fostering the integration of the various programs and delivery structures. The Mercatus Center April 2004 report on federal Agencies' budget and performance integration described SBA's use of cost allocation information as a "best practice" among federal agencies in linking goals and results to costs.

## **Competitive Sourcing PMA Status**

In the third quarter FY 2004, SBA received from OMB a Yellow in Progress and a Yellow in Status. As early as June, 2003, SBA discussed with OMB the best way to approach the competitive sourcing process from a fiscal perspective given the size of the Agency. Achievements include the following:

- SBA conducted five streamlined competitions on work performed by 251 full time equivalent employees (FTE), which could potentially save SBA an estimated \$1.6 million.
- SBA announced the Office of Disaster Assistance standard competition for loss verification activities (130 employees).
- SBA completed the preliminary work to re-compete as a standard competition next fiscal year the Office of Investment examination activities (23 employees).
- Based on limited funding in FY 2004, SBA has submitted to OMB an updated Competitive Sourcing Plan, which reflects OMB guidance to conduct 10 competitions in FY 2005.

## **Strategic Management of Human Capital PMA Status**

For the third quarter FY 2004, SBA received from OMB a Green in Progress and a Yellow in Status. OPM has recognized SBA's Human Capital Plan as one of the best in government and referred other agencies to SBA for consultation on developing or improving their plans.

Specifically, SBA achieved the following:

- Experimented with Alternate Work Sites (AWS) in 11 locations in five states. This effort is designed to provide increased marketing and outreach efforts to reach a larger portion of the Nation's small businesses. AWS will enable SBA to move towards a citizen-centered organization by increasing direct service delivery and interaction with customers and maximize the use of limited resources.
- Launched an e-training curriculum for field office staff, which included marketing, outreach, customer relationship management, and effective presentation techniques.
- Completed career development plans for all employees impacted by the centralization of loan liquidation functions.

- Offered all field offices access to GoLearn business suite of distance learning courses, resulting in 1,023 licenses issued and over 1,204 course registrations received.
- Identified an employee trainer cadre for the classroom portion of marketing and outreach training to deliver the transformation curriculum to all SBA field offices by the close of FY 2005. It will save the Agency tuition costs of approximately \$10,000.
- Completed the competency analyses of requirements under the “new SBA” with the exception of legal support and information technology functions.
- Completed the 360° Leadership Assessment Training of all district directors and GS-15 employees, with feedback from OPM. Initiated the 360° Leadership assessment for the remaining supervisors and managers (to be completed in the 4<sup>th</sup> quarter of FY 2004). These data will provide the basis for a substantial and quantifiable succession plan.
- Issued competency surveys to complete a comprehensive skills analysis for ensuring continuity in the face of increased retirements and “brain drain.” This analysis will enable us to establish career development plans to meet any skills gap.
- Established a National Performance Systems Committee to improve the performance appraisal system and ensure that it accomplishes its intended objectives.
- Conducted quarterly performance reviews to ensure that the performance plans align with the PSBA and the Agency’s Strategic and Performance plans.

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Within the next several years, SBA will continue to implement the President’s Management Agenda and demonstrate that the Agency can “get to green” in every category by achieving the following results:

- Have clean financial audits with no material weaknesses, and financial information that is timely, accurate and useful.
- Use this information to allocate our resources in a way that will help create and sustain the maximum number of small businesses possible;
- Fully execute a personnel management and appraisal system that links performance to pay;
- Have the appropriate level of skilled employees and managers when and where needed to meet our mission;
- Fully execute the Business Gateway to serve small businesses anytime, anyplace;
- Complete 10 standard competitions required by the Competitive Sourcing guidelines involving commercial activities resulting in increased efficiencies, improved performance, and lower operating costs—matching best practices of the private sector;
- Quantifiably demonstrate the value of investments made in programs and activities to support small businesses.

Having achieved these results, SBA can feel confident it has contributed to:

- Significantly higher rates of job creation, revenue growth and sustainability among businesses helped by SBA when compared to businesses in general.
- A more focused, accessible Agency that provides assistance to many more entrepreneurs in a more cost efficient way, by spreading our employees out to more geographical areas, integrating other resources into our delivery system and through better use of technology.
- Employees who are valued and appropriately rewarded based on merit and performance.
- Better managed resources to accomplish its goals and objectives.
- An organization that constantly seeks improvement to become a leader in the public sector, rivaling first quartile private sector firms in terms of service delivery, operations, management and results.

Focusing on results that are good for small businesses and achieving the goals of the PMA, SBA's employees will:

- Know what is expected and what must be done to contribute value toward our strategic goals and objectives;
- Have received additional cross-skills training to improve professional and personal development and value;
- See increased levels of assistance and increased customer satisfaction from our actions;
- Be encouraged to innovate and see the direct effect of continuous improvement on streamlined operations, improved performance and meaningful results;
- See direct rewards for increased performance toward the strategic goals and objectives;
- More clearly understand our customers' needs and what we need to do to address them;
- Continue to receive training and support to be the best;
- Continue to see how performance drives organizational results, and how one can personally benefit through direct contribution toward these results;
- See improved outcomes for our customers, providing enhanced job satisfaction as a public servant; and
- Know that we are providing a service to our country that is valued.