

***Testimony of
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***U.S. House of Representatives
Congressional Black Caucus***

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Topic: Black Retired Military Officers: A Class of Business
Entrepreneurs

Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. The Chief Counsel for Advocacy, who is appointed by the President and confirmed by the U.S. Senate, directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Issues are identified through economic research, policy analyses, and small business outreach. The Chief Counsel's efforts are supported by offices in Washington, D.C., and by Regional Advocates. For more information about the Office of Advocacy, visit <http://www.sba.gov/advocacy>, or call (202) 205-6533.

Good afternoon. I am happy to be with you today. Thank you, Representative Clay and the Members of the Congressional Black Caucus for pulling this forum together and for the opportunity to speak.

My name is Winslow Sargeant. I'm the Chief Counsel for Advocacy at the U.S. Small Business Administration. Congress established the independent Office of Advocacy within the SBA in 1976.

My own background is in technology and business. I started off my career as an electrical and computer engineer, working for IBM, AT&T and Lucent Technologies, obviously not small businesses. In 1997, as a result of the new competition created by the 1996 Telecom Act, I saw an opportunity to start my own business. Along with a couple of friends in Allentown, Pennsylvania, a community going through some tough economic times, we quit our jobs and started a company designing computer chips. In a short period of time, we grew from a handful of employees to more than 50. We were successful, and a few years later accepted a great offer to sell the business to a publicly traded company. Still, we were not exempt from the challenges of starting and growing a business. There were legal bills, paperwork, and sometimes regulations that made no sense for a company our size. Since starting my first company I have been involved in starting and growing a number of businesses. I worked in venture capital, where I focused on investments during the early stages of start ups in technology, energy, and health care.

As a former small business owner who has had to make a payroll, I understand the challenges small business owners face. That's why I'm pleased that it is my job as Chief Counsel to advocate for small business concerns and interests before Congress, the White House, and federal agencies.

Advocacy focuses primarily on two areas: small business research and reducing the regulatory burden. We provide research on issues that are important to small business, such as lending, procurement, and tax policy.

We all know how important small and minority-owned businesses are to our economy. But what are the numbers? Small firms employ half of all private sector employees and represent 99.7 percent of all employer firms. African-American-owned businesses in the United States numbered 1.9 million in 2007, a 60.5 percent increase over 2002. African Americans owned more than 100,000 firms with employees, and these firms employed more than 900,000 people, with a total payroll of nearly \$23 billion and almost \$136 billion in receipts. A closer look at the data reveals that many of these businesses are small in terms of company size. Of the total, 94 percent had no paid employees. The hard truth is that although businesses owned by African Americans are growing in number, they are not growing in size, capacity, or revenue. So we have our work cut out for us.

In the context of today's roundtable, we have data from the 2007 Survey of Business Owners on the number and receipts of veteran-owned small businesses by minority group. For example, in 2007, there were 188,820 firms owned by African American veterans. Of these, 12,177 had employees. By industry, the largest shares of these employer firms were in health care and in professional, scientific, and technical services.

We have seen some improvement in government procurement. From 2009 to 2010, there were increases in both prime and subprime contracting for small, women-owned and small disadvantaged businesses. Subcontracting small businesses increased from 31 percent to 35 percent, and women-owned small businesses went from 5.4 percent to 6.2 percent. Overall, the government-wide procurement performance was given a grade of B. While this improvement is certainly good news we have to be diligent to maintain this progress.

Advocacy's research has an important role to play in providing the data needed to support effective public policy. For example, in 2008, as required by Public Law, Advocacy conducted a study measuring the effectiveness of the HUBZone program. The HUBZone program was authorized in 1997 to target federal contracts to areas with low income, high poverty rates, and high unemployment. The study found that the program grew in terms of contract dollars from \$44 million in fiscal year 2000 to \$1.76 billion in fiscal year 2007. The study found that at the time, the HUBZone program had not been able to generate enough contract dollars to have a national impact. The eight-year total of \$6 billion in set-asides and other types of contracts was spread over 2,450 qualified metropolitan areas, rural counties, and Indian reservations. More recently, figures from SBA's small business procurement scorecard show that in FY 2010 alone, the total procurement from small businesses in HUBZones was nearly \$12 billion.

We have also provided needed research on broadband technology for small businesses. Broadband is a transformative technology that allows U.S. businesses to access customers around the world. But access to broadband is not created equal. In 2010 we released a study required by the Broadband Data Improvement Act, which found that for small businesses, the availability, speed, and price of broadband services varied considerably between rural and urban areas. We believe that all small businesses must have fast and affordable access to broadband if they're going to succeed. The study is a first step toward making that access a reality, especially for small businesses in underserved markets.

Related to the issue of job creation, the Office of Advocacy has looked at the phenomenon of high-growth firms. Over its history, Advocacy has conducted numerous research studies on high-impact, fast-growing firms, first called "gazelles" by one of our early contractors, David Birch. In 2008, Advocacy sponsored a research study titled *High-impact Firms: Gazelles Revisited*. The study found that high-impact firms represented 2-3 percent of all firms, and accounted for almost all of the private sector employment and revenue growth in the economy.

Shortly after President Obama appointed me to head the Office of Advocacy in August 2010, we held a forum on high-impact firms. The overall view of the participants was that a private-public partnership was needed for small businesses to succeed and create jobs.

And just last week in a forum on small business finance, we looked at another angle in the job creation puzzle—how to help small businesses access the debt and equity capital they need. Among the key points made in that forum was that there is a great need for investments in small businesses with high potential at an early stage. And there is a need for sound public policy that will help us move forward in this area.

At Advocacy we will continue to support research to encourage the successful startup and growth of minority and women-owned businesses—really all innovative businesses.

The high priority for Advocacy is reducing the burden of regulations on small business. Our research finds that small businesses pay more than large businesses to comply with regulations. At Advocacy, we listen to small business about what works and what doesn't, and then we work with federal agencies to explore possible alternatives to proposed rules. We've been able to save small businesses nearly \$15 billion in forgone regulatory costs this past fiscal year, while still accomplishing the agencies' objectives. We're proud of our success, but there is still more to do.

Under the Regulatory Flexibility Act, the Office of Advocacy has an independent role in looking at the rules proposed by all the federal agencies, including the SBA. We got involved when the SBA proposed improvements to SBA's Women-Owned Small Business Contracting program. SBA proposed that women-owned businesses be able to self-certify when they were successful in obtaining a contract. Advocacy commended SBA for addressing past discrimination against women-owned businesses in competing for federal contracts. Advocacy recommended that SBA take into account new technologies and industries that may not yet be represented in the NAICS system. The final rule made great progress in trying to reduce the economic cost of compliance for small women-owned businesses within the framework of the law.

In another rule, Advocacy commented on SBA's proposed rule regulating the 8(a) procurement program. The proposed rule had a residency requirement that meant participants in the program would have to spend a certain amount of time each month at his or her primary office. There was no legal requirement for this, and Advocacy recommended dropping the residency requirement. The final rule was changed to eliminate it.

We also commented to the Office of Federal Procurement Policy about its policy letter on insourcing—a management tool used to address over-reliance on contractors by federal agencies. As a result of our comments, the final policy letter minimizes the potential negative impact on small businesses by requiring federal agencies to take two actions. First, when agencies review which of their contracted work can be accomplished within the agency, they are to put a lower priority on “insourcing” work being performed by small businesses. Second, they are to apply the “rule of two” to work that will continue to be performed by contractors. The rule of two calls for a contract to be set aside for small businesses if at least two small firms are available to do the work for a fair market price.

We’ve also been supportive of the “QuickPay” plan announced last week by President Obama. This plan requires agencies to cut checks to small contractors within 15 days of receiving a valid invoice, instead of 30, as required by the Prompt Payment Act. It should help improve the cash flow for small businesses that do business with the government.

And there has been a recent rule proposed related to the “Rothe” case. As many of you know, in the case of *Rothe Development Corporation versus the Department of Defense*, the U.S. Court of Appeals for the Federal Circuit struck down the DoD’s small disadvantaged business preference program. Just two weeks ago, on September 9, 2011, the FAR Council—which includes the DoD—issued a proposed regulation related to this case. The rule attempts to deal with the impact of the *Rothe* case on small disadvantaged business concerns and historically black colleges and universities. The proposed rule notes that the changes may have a significant economic impact on small businesses under the RFA. That statement often brings my office into the discussion, as federal agencies and small firms work together to reduce the small business regulatory burden. Those interested in commenting on that proposed rule should submit comments by November 8, 2011.

Finally, President Obama has recognized the unrealized potential for small businesses in exporting and importing goods and services. He has pointed out that the goal of doubling exports by 2015 can be achieved only if small and medium-sized enterprises get the support they need. I believe strongly that one of the ways to provide this support is to reduce the regulatory cost burdens for small businesses interested in entering the export market. These barriers to exporting include the time it takes for products to be approved for export, the types of products eligible for export, and the sometimes unreasonable penalties and assessments, insurance costs, and licensing requirements involved in exporting. We want to help our innovative small businesses penetrate these international markets by reducing these burdens.

So in a nutshell, the Office of Advocacy gets involved in advocating for small firms through small business research and reducing the regulatory burden on small firms. In conclusion, let me say that I look forward to continuing to work with the Congressional Black Caucus on issues that affect small and minority-owned businesses. Tomorrow, the President's Task Force on Veteran Business will meet at SBA and I know that your participation is critical to the final report. It is important for you to convey your concerns to SBA. And if there are issues you want to discuss, concerns you may have, please contact us, contact the office, call me. Advocacy stands ready to help.

You know and I know that starting and growing a business is challenging, creating jobs is challenging, growing an economy is challenging, but we have the tools and the commitment to do all of these. We've done it before. American innovation and entrepreneurship have created some of the world's greatest companies. So as we continue to work our way through these challenging times, please remember that small business is our focus in the Office of Advocacy. I am pleased for the opportunity to be here today and I applaud your efforts.