



U.S. Small Business Administration
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OFFICE OF
INSPECTOR GENERAL

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FROM: Phyllis K. Fong
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SUBJECT: Advisory Memorandum: *Report On The Results of SBA Management Challenge Discussion Groups (#01-04-01)*

Executive Summary

The Office of Inspector General (OIG) Inspection and Evaluation (I&E) Division held discussions in late FY 2000 with selected groups of senior officials from the Small Business Administration (SBA) headquarters, regional, and district offices on potential management challenges facing SBA and a new Administrator. While we found a strong sense of commitment to SBA's mission, we also found that the rapid changes the Agency has experienced have produced a number of concerns among some senior officials. The issues covered by the discussants included the scope of the Agency's mission as it relates to changes in SBA's market, the regional field structure, centralization of functions and authority, workforce and program issues, and internal communication. The need for greater efforts to improve senior level communications was almost a constant in the meetings. In this memorandum OIG presents the issues raised and suggests some actions that might be taken to help address them.

Introduction

From August through October 2000, the I&E Division of the OIG held discussions with four selected groups totaling almost 50 senior officials from SBA headquarters, regional, and district offices. Under the leadership of an independent contractor, these discussions focused on SBA management challenges. Because of time and resource constraints, however, we were not able to verify whether the views expressed represent the opinions of a majority of SBA officials. While the information gathered assisted OIG in developing the list of management challenges facing the Agency in FY 2001, we found other issues that we were not able to develop in a limited timeframe. Nevertheless, these additional issues could present management challenges for the Agency and, therefore, be important to SBA's new Administrator.

Changes in the U.S. economy, rapidly evolving technologies, and a significant shift in the public's view of the role of the Federal Government have led to the reengineering of SBA. In discussions with SBA officials, we found a number of unresolved concerns that apparently have resulted from these rapid changes. OIG believes it would be useful for new SBA policy officials to be aware of, and address, some of the issues raised in these discussions while Agency restructuring is still underway. This memorandum presents those issues and suggests some actions that might be taken.

Commitment and Concern

OIG recognized a strong commitment to SBA's statutory mission in discussions with both field and headquarters officials. The major strengths of the Agency cited were an experienced and committed SBA staff who believe in the mission of the Agency, and the fact that SBA serves people who walk away satisfied. Discussants generally were confident that the Agency is flexible and resilient enough to adapt to, and make work, whatever programs or initiatives are established. At the same time, we found that the rapid and sometimes dramatic changes ongoing in SBA have produced certain concerns and tensions, especially in the field. These concerns centered primarily on the implementation of the Agency's core mission, and on organizational and some program matters. Internal communication issues seemed to be a significant factor in all of these areas.

Agency Mission and Market

All four of the groups agreed that SBA needs to reassess the implementation of its mission through market research and analysis on the needs of small business. Some discussants suggested that SBA programs need to be less Agency driven and more market driven. Proposals for the type of analysis needed ranged from an in-depth longitudinal analysis to selected individual small business market analyses—for example, of the top ten SBA geographic markets.

The impetus for suggesting the need for market analyses results from perceptions that (1) the small business market has changed dramatically; (2) officials may not know what SBA's customers really need; (3) the Agency is stretched too thin with too many programs and initiatives, some of which may overlap; (4) too many programs and initiatives are deemed priorities; and (5) there are too many loan products that have become too complex for lenders.

Because banks are resource partners that help fulfill the Agency's mission, some discussants also wanted to know whether bank mergers have had a significant impact on SBA lending and whether a good or bad economy affects the implementation of SBA's mission. Related to the changing way banks and SBA conduct business, some discussants indicated a need for greater knowledge of the nature, character, and behavior of banks. Some banks were reported to be losing sight of the underserved and need incentives to approach new markets. Discussants remarked that the increasing

complexity of SBA's loan processes, fee structure, and reporting is making it difficult to keep small—especially rural—lenders in the program.

One group suggested that SBA should return to the marketplace as it did in 1993 when SBA held a series of "town hall" meetings throughout the country to identify the needs of the small business community. According to a summary report of those meetings to the President, they gathered suggestions and recommendations on how the Government could help small businesses grow, profit, and create jobs. In each of seven cities, the views of more than 2,000 small business owners, 250 small business lenders, and over 500 local SBA staff were solicited for use in structuring Agency programs.

Organization

During the last decade, SBA has undergone substantial organizational change. Agency field offices and staff have been especially affected. In the mid-1990s, as part of an overall staff reduction effort, the ten regional offices that once acted as intermediaries between the district offices and Washington headquarters were significantly downsized. Further, most loan approval and portfolio management functions that had centered in the district offices were transferred to resource partners and centralized SBA processing and servicing centers. This transition has not necessarily been easy and, in both the field and in headquarters, some believe that adjustments should be made.

Regional Structure. In their roles as intermediaries, the regional offices originally acted as two-way conduits for information, policy guidance, and instructions between headquarters and the district offices (68 in 1992). Staff specialists handled liaison functions for each major SBA program area. Discussants indicated the prior regional office structure had offered certain advantages by “funneling” and “distilling” information and policy directives from headquarters to the districts. With the downsizing of the regional offices, SBA's Office of Field Operations (OFO) became the field's representative in headquarters. Among other responsibilities, OFO provides policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives, and in solving problems in specific operational areas. OFO also serves as a liaison between headquarters and the field.

While OFO was given a great deal of credit for its efforts, discussants in both headquarters and the field expressed the belief that staffing constraints have precluded OFO from effectively performing the role accomplished by hundreds of people in the old regional office structure. One official described OFO's role as “mission impossible.” There was some feeling that many decisions affecting the districts could be made at the regional level without involving headquarters.

It was suggested that a more coordinated approach is needed where issues or problems arising in the field can be channeled to headquarters, and vice versa, through a regional staff that has a good understanding of local conditions and is therefore better able to make decisions. Although there was general agreement that OFO should not be abolished or that regional offices should not be staffed at their former levels, discussants

in both the field and headquarters indicated that a larger regional presence and decision-making authority would facilitate operations. It was also suggested that it would help ensure continuity if the head of OFO were a career appointee and/or if OFO reported directly to a career appointee.

In fact, it was emphasized in several groups that for greater SBA mission continuity and to strengthen relations between headquarters and the field, it would be constructive if additional top Agency officials were career professionals. It was noted that, although it is desirable to bring in people with new ideas, the high turnover that SBA has experienced adds complexity to Agency operations and results in a loss of the institutional knowledge that is critical to effectively implementing SBA's mission.

Centralization of Functions. All of the discussion groups addressed the centralization of certain Agency functions, including the processing and servicing of business loans. Although a variety of views were expressed, field officials had more concerns about SBA's centralization of functions than did headquarters officials.

On the one hand, it was noted that the centralization of certain Agency processes helps provide limited district office staff with the opportunity to accomplish other tasks, and that large centralized servicing centers may make the jobs of lenders easier. On the other hand, there were suggestions that centralization has had some negative consequences for relationships between district offices and lenders. For example, it was suggested that some community lenders do not like to deal with people they do not know, such as those at the processing and servicing centers. Discussants in one group also noted that, with centralization, SBA has lost much of its ability to exercise needed oversight. Other field officials expressed concern that, while decisions are best made at the customer level, centralization has resulted in the district offices being increasingly "out of the loop" on decisions affecting their small business customers or potential customers.

Centralization of Authority. Related to the implementation of SBA's mission, we were told that SBA seems to have recently decentralized responsibility while centralizing authority and resources in Agency headquarters and the processing centers. It was remarked that this situation resulted in the field, despite its significant local knowledge, having little input into making policies or implementing programs. The case was made that pushing decision-making down to the level closest to the customer would improve the delivery of SBA programs and services, and the efficiency of their operations. Even in the headquarters discussion group, it was noted that few of SBA's Washington managers have field experience and therefore have difficulty recognizing the impact their policies have on the Agency's small business customers. In both the field and headquarters discussion groups, some discussants viewed this as detrimental to Agency operations and suggested that a resurgence of the field system was needed. At least some of the concerns expressed by field staff about their input into headquarters decisions appeared to center on a perception that SBA headquarters determines loan volume goals with little input from the field and that a new goal development system with greater consultation with the field is needed.

Workforce

According to SBA's FY 2001-2006 Strategic Plan, modifications are required in Agency employee skills and deployment because of changes in small business practices, products and needs. While discussants acknowledged that Agency restructuring efforts have begun, they also indicated that their implementation remains a source of anxiety.

The field was especially concerned about (1) an aging workforce with the potential for a loss of institutional memory as people retire, (2) budget cuts that have produced insufficient succession planning at the management and operational levels, (3) inconsistent personnel policies, (4) confusion over which practices are permitted during a hiring freeze, and (5) a lowering of morale. At various points it was noted that, although SBA has made great efforts in the area of succession planning for district directors and Senior Executive Service candidates, and in training for mid-level managers, SBA needs to (1) address the training needs of staff at lower grade levels, (2) ensure that prior policy and program actions are well documented for new employees, and (3) hire new employees before experienced people leave. It was also suggested that moving personnel staff back to the regions could expedite the hiring process and avoid confusion.

Several groups emphasized the need for increased technology use and adequate computer equipment and training to make operations more efficient and competitive, thus mitigating the need to hire additional staff.

Programs

Program Marketing. A key element of SBA's reengineering process is retraining Agency staff to successfully market all Agency products and services to small businesses. Some of the field concerns related to SBA's capacity to market programs effectively include (1) the need for the Agency to look and act more like a private business while lacking the advertising or resources needed for creating extensive relationships and outreach, (2) a lack of knowledge about rejected loan applicants who may need the Agency's other services, and (3) the fear that the numerous Memoranda of Understanding signed between SBA and various groups in the last few years may have created false expectations that will not be fulfilled.

Entrepreneurial Development. We were advised that SBA may be meeting the financial needs of small businesses, but not necessarily their technical assistance needs. A plea was made for a more "holistic" view. Both field and headquarters staff indicated that SBA should track SBA borrowers to determine their needs and provide help if necessary. One suggestion was to try an incremental pilot project that would put a small business on a continuum of SBA assistance for the different stages in its life cycle. SBA could start the pilot, for example, with one program in a few districts, fine-tuning and adjusting it as it develops.

8(a) Business Development and Government Contracting. As with technical assistance, concern was expressed that the Section 8(a) Business Development program plays a

secondary role to the Agency's loan programs. It was also noted that to increase small business contracting opportunities, there needs to be greater cooperation and coordination among the Office of Government Contracting, and the Section 8(a) Business Development, Small Disadvantaged Business (SDB), and HUBZone programs. To avoid product and service overlap, it was further suggested that communication should be improved between headquarters officials who manage those different programs.

Regarding the SDB program specifically, one discussion group addressed the sometimes high certification fees (reportedly \$500 to \$5,000) that small businesses have been assessed even though the certified SDB might never obtain a contract. One suggestion was to charge a certification fee for small disadvantaged businesses only if the business obtains a contract. It was also proposed that field offices play a role in the certification process to ensure appropriate certifications while avoiding delays in the certification of legitimate businesses.

Business Loans. As indicated above, in recent years much of the district office responsibility for, and authority over, loan programs has been transferred to resource partners and centralized processing and servicing centers. This distancing has apparently produced a number of additional concerns regarding the business loan program, including (1) bank refinancings that some suggest benefit the lender and reduce the availability of Agency funds, (2) a perception that asset sales do not support SBA's mission of assisting a small business until it is capable of repayment, (3) a fee structure that is too high for loan applicants, and (4) a fee and reporting structure that is too complex for smaller banks.

Internal Communication

A common thread throughout the discussions was a belief that communication between headquarters and the field was not as strong as it could or should be. While this was especially clear when discussants spoke of the need for a more significant regional structure for channeling and filtering information, it appeared to permeate discussions of all issues. Both field and headquarters staff raised concerns that headquarters may not understand the needs of the field. In addition, fears were expressed that communication gaps result in confusion and lower morale in the field. Finally, field participants wanted headquarters staff to visit the districts more often to assess their needs.

Several field groups stated they sometimes first learned of important information through "second hand" sources such as the National Association of Government Guaranteed Lenders, albeit in an untimely manner. One field discussant explained that communication failures had caused him to convey incorrect messages to his staff, damaging his credibility. A headquarters official noted that if SBA does not adequately communicate policy changes to the field and explain how they will benefit SBA, the field will resist the changes. It was also suggested that improved communication between headquarters and district offices could help the district offices apply rules more uniformly, and have the added benefit of letting district offices know where they have some flexibility in the application of certain rules.

OIG Comments and Suggestions for Action

We learned from the discussion groups that there are concerns about the effects of SBA's recent experiences with downsizing and reengineering. As indicated above, most of the issues related in some way to internal communications and the exchange of information. Consequently, rather than focussing on the specific issues raised, the OIG suggestions for alleviating some of the concerns we found center on increasing the flow of critical information and on improving communication.

Small Business Market and Lender Analysis: The discussants emphasized that not enough is known about current small business needs and the nature of today's small business banking. The last major Agency initiatives to address these issues were SBA's town hall meetings that were conducted in 1993 and the White House Conference on Small Business held in 1995.

The SBA Office of Advocacy held a conference in June 2000 on "The Changing Banking Structure and Its Impact on Small Business: A Conference Report." Office of Advocacy officials joined leading researchers from the Federal Reserve Board and other bank regulatory agencies, as well as several academics and banking representatives, in exploring the issues and data. Although the report has been published and is available on SBA's web site, the conference raised additional questions and produced a number of proposals for future research work.

The only national survey that asks small businesses about their credit needs is the National Survey of Small Business Finances, that was last published in 1993. The next survey will be published in 2001 but analysis of the raw data will take longer. The Office of Advocacy plans such an analysis when the data are available.

Meanwhile, to provide more immediate information on small business needs and current small business banking practices for SBA staff, one or more of the following might be conducted—

- A series of town hall meetings with representatives from small businesses, lenders, and SBA staff
- A White House Conference on Small Business
- Targeted surveys or research studies of specific markets
- A survey of SBA field staff regarding their understanding of current small business needs and commercial lending to small business
- A dialogue between leading researchers in the banking area and SBA field and headquarters officials at one of the periodic management conferences

Improving Internal Communication: The common thread throughout the discussions was a belief that communication between headquarters and the field was not as strong as it could or should be. Poor communication can lower employee morale and reduce commitment due to uncertainty and mistrust. Given the nature of the issues raised by the discussants, it may be advantageous to review current procedures for communicating with the field and seek out additional opportunities for dialogue between the field and headquarters. These might include—

- Increasing the amount of time spent in open dialogue and work group sessions at the periodic management conferences
- Establishing discussion groups where employees of all levels meet to solve problems and brainstorm issues
- Surveying field and headquarters staff about their concerns
- Using OFO's District Technical Advisory Board as a top level policy advisory board

Regional Structure Review: With over five years of experience in operating with a reduced regional staff, it would be useful for SBA to review the impact the downsizing may have had on the efficiency and effectiveness of Agency operations. To gather information on this issue, some of the methods suggested to improve the Agency's internal communication process might be used.

Program and Other Issues: Some concerns about SBA programs and other issues surfaced in the course of our discussions. While the sessions were too short to provide details on these items, some of the ideas suggested for improving the internal communications process might also be used to explore these and other issues. Items discussed in our meetings included—

- Skills training, and leadership continuity and succession
- Coordination, mix, and emphasis among the various SBA programs
- Program effectiveness and efficiency
- Opportunities for identifying possible program overlap and duplication
- Simplification of SBA application procedures and reporting
- Division of resources and authority between the field and headquarters
- SBA personnel policies

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