Chapter 6

BALANCING SOCIOECONOMIC AND PUBLIC PROCUREMENT REFORM GOALS: EFFECTIVE METRICS FOR MEASURING SMALL BUSINESS PARTICIPATION IN PUBLIC PROCUREMENT[1]

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INTRODUCTION

A defining characteristic of public procurement is the requirement for purchasing professionals to comply with applicable socioeconomic laws and regulations that do not apply to the private sector. While these socioeconomic procurement programs for public agencies require additional considerations in the procurement process, they also allow agencies to benefit from the contributions that small businesses bring to an organization and the economy. Reforms of public procurement policy that are intended to streamline procurement processes are not always designed with socioeconomic goals in mind. As a result, the impact of these reforms on small business participation is a matter of debate in the procurement community.

Because federal procurement programs are measured by a single metric mandated by Congress (percentage of total dollars awarded), the impact of procurement reforms may not be clearly delineated. Alternative metrics may provide greater insight into the impact of the reforms. In developing alternative metrics, federal programs must follow the guidelines of the Government Performance Results Act (GPRA) of 1993. Our review of the literature examines each of the following areas: contributions of small business, history of procurement reforms, GPRA, and the development of useful metrics.

LITERATURE REVIEW

Small Business Contributions

Socioeconomic goals for public procurement lead to increased emphasis on contract awards to small businesses. Through awards to small business,

the government: 1) gains increased innovativeness; 2) encourages entrepreneurship; and 3) contributes to job creation and economic development.

Small businesses contribute to the national economy in several measurable ways. Acs and Audretsch (1993, p. 2) found that small businesses and their owners contribute to the national economy as innovators, entrepreneurs, promoters of international competitiveness, and job generators. The roles of small businesses as innovators and entrepreneurs, in particular, led Denes to declare, "the encouragement of small businesses is an important goal of many modern governments" (Denes, 1997, p. 442).

Small firms can be more innovative than large firms because "they are able to respond quickly to changing market demand, are organizationally flexible, and have efficient internal communications" (Mogee, 2003: 3). Small firms innovate when larger firms are more cautious because "pioneering new markets and providing information in small markets are often inherently risky activities and may yield economic returns that, for larger companies, are not commensurate with risk" (National Academy of Engineering, 1995, p. 37). Once creative small firms assume these risks, the larger firms are forced to be more inventive as well. Acs and Audretsch (1988, p. 687) posit that in markets dominated by large firms, "the small firms must resort to a strategy of innovation in order to remain viable."

Small firms show an additional advantage over large firms: "small firm innovators are extremely effective at producing technically important innovations…small firm innovations are more than twice as likely as large firm innovations to be extremely high impact" (Chi Research, Inc., 2003, p. 12). Small firms are also more flexible than large firms and thus can respond faster to changes in the environment. This flexibility ensures that "the arrival of any major new technology should favor young, small firms—firms that tend to have a nonhierarchical structure, fewer unionized workers, and fewer outdated management practices" (Jovanovic, 2001, p. 54).

The innovativeness of small firms not only advances technology but also increases employment. Entire industries may be created through the successful innovation of small firms. One researcher concludes that most growth comes from "comparatively younger firms in newer industries" and that "most of economic growth comes from new small businesses which are successful and grow eventually to be large" (Terleckyj, 1999, p. 3).

Small business plays an important function as a creator of jobs and also serves as an entrance to the workforce for many workers. Studies reveal,

"Over a 4-5 year period, about three-fourths (75-80%) of new jobs have been shown to come from small firms. About 30-40% of these new jobs have come from the births of new firms and 60-70% from rapidly expanding 'gazelle' firms" (Office of Advocacy, 2000, p. 13). An example of small business' impact on the labor market is that in 2000, small businesses added "a net total of 2,505,712 employees; they represented 75 percent of net non-farm employment change in the United States" (Office of Advocacy, 2003, p. 1).

Small firms also fill a critical niche in the job market as "the essential mechanism by which millions enter the economic and social mainstream of American society" (Office of Advocacy, 1998, p. 4). Small business is "especially crucial in determining the job opportunities for low-skill workers" (Fitzgerald and Ribar, 2001, p. 1). What distinguishes small businesses in the labor market is their ability "to utilize secondary, or less attractive, resources in the marketplace" (Robbins and others, 2000, p. 295). These secondary resources are defined as "first time entrants into the job market, the long-term unemployed, individuals at low educational levels, part-time employees, women, certain minorities, immigrants, short-term workers, the previously self-employed and workers under the age of twenty" (Robbins and others, 2000, p. 295).

Creating an economic climate that promotes entrepreneurship is a key element in promoting both innovation and small business. Creating such an environment is a key element in the federal government's small business programs. "A cooperative project between an innovative small business and a bureaucratically attuned partner can lead to positive outcomes for the small business project team and many publics" (Brannen & Gard, 1985, p. 49).

The benefits of entrepreneurship are numerous. Entrepreneurship allocates resources to new competitive uses. It "introduces new knowledge or combines old knowledge in radically novel ways to improve economic performance," as well as creating human capital, "the basic source of innovative activity" (Karlsson & Karlsson, 2002, p. 179). Promoting entrepreneurship encourages innovative behavior and economic growth. "Entrepreneurship is the best instrument to secure that resources that have become idle are put into productive work as soon as possible" (Karlsson & Karlsson, 2002, p. 180).

Notwithstanding small business contributions to innovation, entrepreneurship, job creation, and economic growth, the involvement of the government in protecting and promoting small business is a topic of substantial debate. Some researchers have concluded that government

involvement is essential to the well being of small business. Lerner (1999) questions government promotion of small, high technology firms, but also acknowledges two rationales for government involvement. First, small firms lack the resources needed for research and development (R & D) and government investment can produce substantial returns. Second, the government may serve as a certifier of a small firm's potential success and increase the firm's ability to attract venture capital by demonstrating to other potential investors the legitimacy of the small business (Lerner, 1999).

A recurring concern over small business set-asides by the federal government is that they reduce competition and increase costs for the government. But Denes' research demonstrates that the number of bidders is not reduced if the procurement is set-aside for small business and that "small business set-asides do not lead to higher cost of contracted services" (Denes, 1997, p. 444).

Government Acquisition Reform Efforts

Efforts to reform government procurement can be traced back to the Armed Services Procurement Act of 1947, which was an attempt to standardize purchasing methods between the various military services (Battershell, 1999). This section will focus on two major reforms made in the 1990s, during which acquisition reform initiatives have been most prevalent (Chinworth, 2000), as well as current transformation efforts.

The Federal Acquisition Streamlining Act of 1994 (FASA) acted upon recommendations from the National Performance Review and the Advisory Panel on Streamlining and Codifying Acquisition Laws and "generated the broadest and most far-ranging changes to the government procurement system in almost a decade" (Tolan Jr., 1998, p. 89). Among its numerous initiatives, FASA contained four major provisions that directly impact small business.

FASA created and promoted the use of multiple award contracts, allowing for the acquisition of the same item from multiple firms. It created a micropurchase label for acquisitions under $2,500, eliminating competition and small-business set-aside requirements for those purchases. It directed a change in the focus of public procurement from government specifications to commercial items. Finally, FASA introduced performance-based service contracting (PBSC) "as a method of reducing acquisition costs and improving contractor performance by encouraging innovative approaches to conducting the work within desired outcomes" (Cooper, 2002, p. 20).

Following FASA, Congress passed the Clinger-Cohen Act. Clinger-Cohen encompasses two acts passed under the DoD Authorization Act of 1996, the Federal Acquisition Reform Act (FARA) of 1996 and the Information Technology Management Reform Act (ITMRA) of 1996 (United States Congress, 1996).

FARA furthered the reforms made in FASA. It established commercial off-the-shelf (COTS) items as a subset of commercial items and "is even more generous in exempting COTS items from federal procurement laws than FASA was in exempting 'commercial' acquisitions from the ordinary bureaucracy of the government purchasing system" (Tolan Jr., 1998, p. 77). FARA also provided "greater flexibility to agencies in determining who may make purchases of $2,500 or less without competition" (Hecker, 2001).

ITMRA required "all federal agencies to link their technology plans and information technology use to the agency missions and goals" (Chinworth, 2000, p. 166). ITMRA "provided for the use of multiagency contracts and what have become known as government wide agency contracts (GWACs) for federal agencies to access each other's information technology contracts" (Hecker, 2001).

These reforms are perceived as having a negative effect on small business. The increased use of MACs and GWACs "can diminish the ability of small businesses to compete for federal contracts since they potentially can consolidate requirements" (Hecker, 2001). The creation of the micropurchase label and accompanying removal of the small purchase set-aside for requirements under $2,500 creates the possibility that "buyers making micropurchases may be less likely to seek small business for these purchases" (Hecker, 2001).

Current procurement reforms are classified under the broader term "transformation," which applies to a comprehensive review of all aspects of the Department of Defense. As with many terms that become buzzwords, the exact meaning of transformation varies with each individual's perspective. It is not surprising then, that "many in the acquisition community misunderstand the intended meaning of transformation" (Manchester, 2002, p. 73). Edward C. "Pete" Aldridge, Jr., the former Under Secretary of Defense (Acquisition, Technology, and Logistics), says transformation has two parts: "Using things we currently have in better, more innovative ways" and "the innovative use of new technology to achieve improvement in capability" (Gasiorek-Nelson, 2003, p. 22).

Procurement transformation is the "alignment of policies, processes, people and technologies in support of an overall procurement vision"

(Bowman, 2003, Slide 24). The DoD has established Business Initiative Councils (BICs) to apply transformation to the acquisition community. The goal of the BICs is "to improve the efficiency of Department of Defense business operations by identifying and implementing business initiatives that create savings to be reallocated to higher priority efforts" (Manchester, 2002, p. 73).

Government Performance Results Act of 1993

Performance measures, or metrics, for the government must be assessed based on the requirements of the Government Performance Results Act (GPRA), a law designed to "improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results" (United States Congress, 1993, Sec. 2 (b)). GPRA passed Congress and was signed into law by President Clinton in 1993. It "intended to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results" (Government Accountability Office, 1997, p. 3). By requiring the creation of performance measurement systems for federal agencies, GPRA "intended to shift the focus of government decision making, management, and accountability from activities and processes to the results and outcomes achieved" (Government Accountability Office, 2001, p. 6). The focus in federal programs shifts to results under GPRA.

According to GPRA, improved government performance depends upon two core values: transparency and accountability. "Transparency and accountability in federal agencies is key to improving performance, particularly as measured by program efficiency and effectiveness" (Mercer, 2001). These two elements are the heart of GPRA. As one observer noted, "Prior to GPRA, there was a tendency for government to 'manage activities and hope for results.' Post GPRA, with open disclosure and transparency, it is possible for Congress to 'choose to do only the programs that will produce results" (McTigue, 2001). GPRA did more than shift the focus on results; it tied budgets to results, which caused a shift in focus of the government as budget management became a planning and management function under GPRA (Melese, 1999).

GPRA also required agencies to define strategic objectives. The Department of Defense identified four objectives: integrate GPRA into the Performance-Planning-Budgeting System (PPBS); make GPRA a meaningful Secretary of Defense level report; develop corporate level goals

and corporate level performance measures; and enable subordinate units to link to the corporate goals through the use of GPRA tools (Maroni, 1998).

Addressing the issue of small business, Welch believes that GPRA must succeed. Welch (2000, p. 108) argues, "establishing a sensible strategic plan for small business, linking that plan to agency performance goals, and unleashing the flexibility of acquisition reform, will benefit not only small business but also the country."

GPRA became law with the intent of changing the focus of government from processes to results. GPRA and its requirements must be considered before developing metrics for any government organization.

Metrics

GPRA provides direction on how federal agencies should determine what performance measures to use. Determining how well proposed metrics meet the standards of GPRA is one way to evaluate the usefulness of a measurement. An additional element to consider in evaluating proposed metrics is what the commercial standard is for developing performance measures.

Metrics are divided into two groups: primary and secondary. Primary metrics focus on overall organization performance, while the focus of secondary metrics is more internal and is used to evaluate different units within the organization. This research focuses on primary metrics, which "address the results you intend to produce and the value you export to others" (Frost, 2000, p. 24). Primary metrics can help the organization "align efforts, manage who's accountable for what, track progress, and report results" (Frost, 2000, p. 24). Two key elements of metrics are their reliability and validity; a reliable metric "produces the same result every time, given the same circumstances" (Frost, 2000, p. 66), while a valid metric "tracks what it's supposed to" (Frost, 2000, p. 64). An effective primary metric is both valid and reliable.

Metrics are "widely recognized as a powerful tool for strengthening organizations and communities, empowering people, facilitating organizational development and capacity building, and managing change" (Love, 2001, p. 442). Metrics provide a focus for organizations and their members; clearly stating goals through metrics allows individuals to focus their drive on achieving those goals. The key element to a good metric is that it must be linked to the organization's strategy, which is one of the requirements of GPRA. Meeting the requirements of GPRA meets the framework of the commercial metric model.

Brown provides a model for how metrics link to strategy. He argues that an organization must first establish what its mission, vision, and values are. From there, the organization can identify what factors will most influence the ability to successfully accomplish that mission. These factors should be measured as metrics. The metrics then can be used to set goals and objectives. These goals and objectives require a strategy to achieve them. Hence, identifying relevant metrics is essential in the strategy development process (Brown, 1996).

Developing effective metrics is not without its challenges. Difficulties include "clarifying the logic that links program outputs with desired long term outcomes, and devising processes for verifying and validating performance data" (Newcomer, 2001, p. 337). Additionally, "performance indicators, especially in the absence of extensive and costly validation efforts, tend to oversimplify and obscure, and are inappropriate for high stakes decisions" (Mark, 2001, p. 475).

Identifying the links between metrics and strategy is a challenge. Incorporating the complex factors that can affect performance can be costly and time consuming. In the end, "the problem of utilization of performance measures emerges as a multifaceted one, where measures are often not developed, developed only selectively, or, most notably, developed but not used or selectively used" (Julnes and Holzer, 2001, p. 694). Metrics must possess all of the characteristics identified previously to be effective, but they also must be seen as useful by the members of the organization in order to truly help drive organizational strategy. Without the support of organizational leaders and members, metrics cannot achieve their potential benefit.

GPRA provides guidelines and directions for government agencies in developing metrics. Commercial firms' experiences also provide assistance in developing effective metrics. In many cases, GPRA incorporates the lessons learned from industry. The key test to determining the effectiveness of a metric is whether or not it is linked to an organization's mission and whether or not it is being implemented in the organization's strategy.

METHODS

This research consists of a three-part methodology. First, using the guidelines of GPRA and commercial standards considerations for developing performance measures, five items are identified to test whether the existing metric used to measure small business participation is appropriate. Second, these five tests are used to measure the effectiveness

of two new metrics proposed by this research. Third, the two metrics are measured and tested against the current metric to identify any potential harmful trends caused by the procurement reform measures enacted during the past thirteen years.

The first new metric proposed is based on our review of the extant literature that revealed that in order to sustain the defense industrial base and maximize the benefits of entrepreneurship and job creation, as many small businesses as possible should be awarded federal contract opportunities.

M1: The Total Number of Small Business Contractors Receiving Contract Awards

The second new metric proposed is based on our review of the extant literature that revealed that in order to maximize access to increased innovation, technological development, and economic growth, emergent small businesses must be continuously added into the federal government supplier base.

M2: The Total Number of New Small Businesses Receiving Contract Awards

The five tests for effective metrics were determined through a review of the extant literature. Love (2000) posits that a metric must be measurable and quantifiable to be of value. Brown (1996) defines effective metrics as those that are consistent with organizational goals, allow for the creation of research-based goals, and promote the development of strategy to achieve those goals. Julnes and Holzer (2001) emphasize the importance of support from organizational leaders to promote organizational acceptance. Based on these findings, the following questions will be used to test the effectiveness of the proposed metrics:

- Is the measurement quantifiable?
- Is the metric consistent with the goals of the organization?
- Can the metric establish specific, research-based targets for the organization?
- Can a strategy be developed to meet the targets of the metric?
- Does the metric have the support of organizational leadership?

By testing the current and proposed metrics with these five questions, this research will determine the effectiveness of the current and proposed metrics.

In the third phase of the methodology, we test the metrics' effectiveness in a real data environment. To accomplish these tests, it was necessary to select a proxy for in-depth investigation. Investigation of governmentwide procurement becomes unwieldy due to the thousands of procurement systems and inconsistent reporting protocols between and within departments.. The data used for this study are from the J001 database, which is the Air Force input to the Federal Procurement Data System (FPDS). The data set used is the complete J001 database from Fiscal Year (FY) 1990 to FY 2003. The data consists of all Form DD-350s (Department of Defense Individual Contract Action Reports) completed during that time period. DD-350s are completed each time an obligation is made on a contract of at least $25,000 and "describe the financial, competitive, statutory, and other characteristics of the obligation" (Eagle Eye Publishers, 2002). A separate DD-350 is completed for initial contract award as well as any modification of the contract. Modifications can be made for a wide variety of reasons, from adding money to the contract to exercising an option to terminating the contract. The DD-350 is only completed for prime contracts, those directly between the government and the contractor. Additional related work performed by subcontractors for the prime contractor is not captured in the DD-350 or any other tracking database for Air Force contracting activities (Eagle Eye Publishers, 2002). As a result, a significant number of dollars that are paid to small businesses at the sub-contractor level are not measured by FPDS.

RESULTS

Part one of the methodology is to review the existing measurement (percentage of total agency dollars awarded to small business) against the five questions as proposed by this study to test for effectiveness. Percentage of total agency dollars awarded to small business is quantifiable and is thereby found to pass the first test. As mandated by Congress and ultimately performed by each federal agency, the percentage of total small business participation is computed and reported on an annual basis. Having said this, coding errors have been found to be prevalent in the DD-350 contract reporting system, reducing the effectiveness of a high quality performance-oriented measure (Moore and others, 2004). Coding errors can result in "overestimating the number of contracts, because the contract numbers might match another contract number with a different delivery order or purchase order. This type of coding error can also affect the quality of a spend analysis on expenditures by each military service" (Moore &others, 2004, p. 79).

The second question, whether the metric is consistent with the goals of the organization, does apply to the existing measurement insofar as Congress has mandated each federal agency track this type of data. Aside from this mandate, the Air Force small business office acknowledges the need for "Additional and Alternative Measures of Small Business Program Effectiveness" as cited as objective 4b. in their annual small business program plan (Air Force, 2003, p. 13).

The third question tests whether the metric can aid each organization in establishing specific, research-based targets. In part, the current metric stands the test of establishing specific targets in that it calculates target percentage goals based on trend analysis (i.e., a calculated average over previous years). The difficulty with projecting goals for future years enters when an agency calculates the percentage without consideration for future budgetary and spending initiatives and does not tie specific goals/objectives outlined in the program plan with contracts awarded. Therefore, percentage of total agency dollars awarded does not meet the requirements of the third test.

The fourth question asks if a strategy can be developed to meet the targets of the metric. Here again, the problem exists with this particular metric in that strategies for increasing small business participation are not directly tied to percentage of total Air Force spend. As expressed in the final report of the Air Force Data and Analysis Integrated Project Team (IPT), "The strategic planning meeting followed several years of disappointing program metrics where we had experienced a decline in small business participation in AF contracts from a high of 17.6% in FY95 to 13.7% in FY01" (Air Force (1992, p. 15). "The questions for the planners were what is causing this decline in program metrics, can we understand our program better and can we act to arrest this decline?" (Air Force, 2002, p. 15).

The fifth and final question inquires as to whether the metric has the support of the organizational leadership. As previously stated, the Air Force small business office has avowed in its FY04-08 Program Plan the need to "Develop Additional and Alternative Measures of Small Business Program Effectiveness" (Air Force, 2003, p. 13). The Data and Analysis IPT report further asserts, "Using a single metric, percentage of total obligations, to measure the performance of the AF SB program is inadequate." (Air Force, 2002, p. 15).

Answering the five questions for the proposed metrics of total number of small business contractors and total number of new small business contractors will fulfill the requirements of the second part of the

methodology. The first requirement is that the measurement be quantifiable. Both proposed metrics pass this test. Not only can they be quantified, but also the method of doing so is clear. The actual count for the Air Force can be obtained through an analysis of the J001 database as performed in this research.

The second question requires the metrics to be consistent with the goals of the organization, which is the Air Force Small Business office in this case. Again, both metrics meet this requirement. Both measures fit well with the outlined strategies and goals included in the *Air Force Small Business and HBCU/MI Program Plan for Fiscal Years 2003-2007*. (Air Force, 2003). Specifically, the assertion in the program plan that states "the vital role small business plays in maintaining a strong defense industrial base…allow us (the Air Force) to fully leverage the strengths and capabilities of the small business industrial base" (Air Force, 2003, p. 1).

The third question requires that the organization be able to establish specific, research-based targets based on the metrics. The real issue here is whether the targets are based on research or merely arbitrary numbers. This research provides historical figures for each of the metrics for over a decade. Based on these numbers, specific targets can be set for each metric. Each metric meets the requirements of the third question.

The fourth question requires that a strategy to reach the targets of the metric must be able to be developed. This research has identified several factors that potentially affect the numbers for each metric through identification of public procurement reforms. Other factors exist that still need to be determined. By understanding how these factors relate to the metrics, the Air Force Small Business office will be able to develop strategies to reach the targets set for each metric. Again, each metric passes this test.

The final question requires the metric to have the support of organizational leadership. The leadership of the Air Force Small Business office determined that these proposed metrics are useful and important and are providing their full support in order for either metric to meet this requirement and to be effectively used by the organization. Based on the construct proposed in the methodology, both proposed metrics are effective metrics for measuring public procurement small business programs.

The third portion or our methodology required us to utilize both the existing and proposed metrics to determine what differences would result in their use to assess the degree of small business participation. Specifically,

would the different metrics yield different assessments of the efficacy of the small business program?

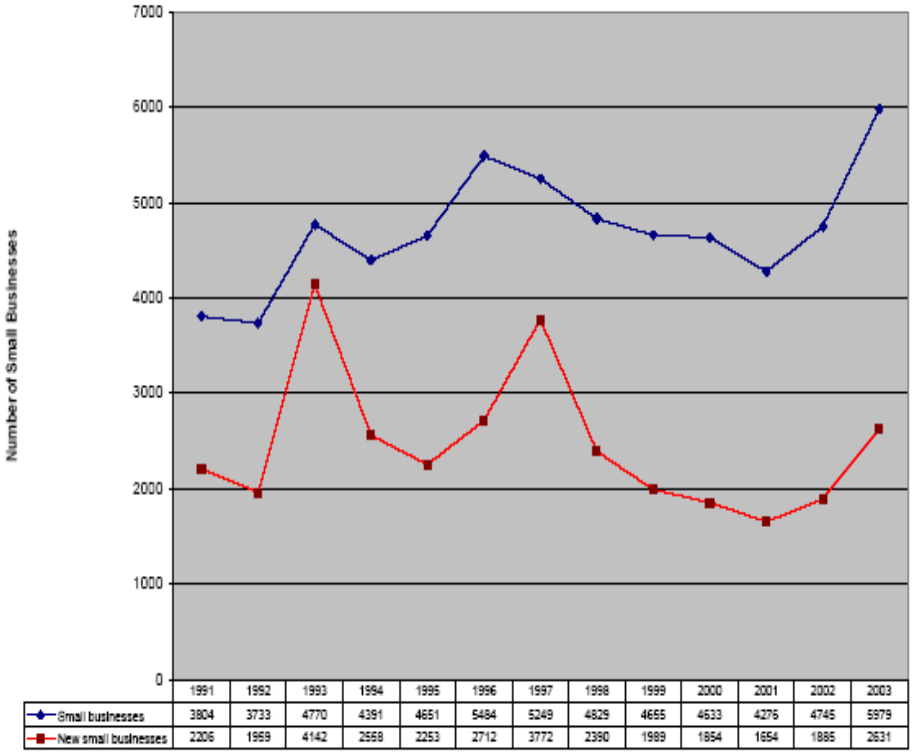
The primary data set was reduced in order to measure the dependent variables. All actions not coded as being a "Small Disadvantaged Business (SDB) Performing in the U.S." or as an "Other Small Business (SB) Performing in the U.S." in block D1A of the DD Form 350 were removed from the primary data set. The remaining actions, reflecting all awards to small business, were sorted by Block B5A of the DD Form 350, the contractor identification number (DUNS) block. All non-unique DUNS were removed, yielding a data set consisting of small business awarded contracts. The resulting quantity of firms in this data set provided the number for the total number of small businesses dependent variable.

The next step required compiling all the unique small businesses for all fiscal years into a data set and sorting by fiscal year of award. Then, all non-unique DUNS were once again removed from the data set, providing a list of all small businesses awarded contracts sorted by when each business first received a contract. Fiscal Year 1990 was used as the base year and a count was done for each following year of the number of new small businesses. An example provides insight into the usefulness of this approach. Assume that Small Business X has won four contract awards, one in 1992, two in 1997, and one in 2002. Small Business X will count as one small business for each of these three years, but will only count as a new small business in 1992.

Figure 1 shows the results of this analysis for the period from Fiscal Year 1991 to 2003. The total number of small businesses shows a gradual increasing trend in the time period covered as a sharp increase in 2002 and 2003, overcoming a steady decline from 1996 to 2001. The total number of new small businesses experienced two dramatic spikes in 1993 and 1997, but by 2003, had returned to levels very slightly above the level in 1991. The general trend of the total number of new small businesses is a straight line.

Figure 2 shows the results of analysis using the current mandated metric of percentage of total dollars awarded, and the target goal for each year for the United States Air Force as presented in the "Report of the Air Force Small Business Integrated Project Team, Analysis of Historical Air Force Contract Spending FY95-02." The annual target goals for the Air Force and the percentage of total dollars awarded are depicted in Figure 2. The relationship follows a similar pattern as the metrics captured in Figure 1,

FIGURE 1
Graph of Recommended Metrics



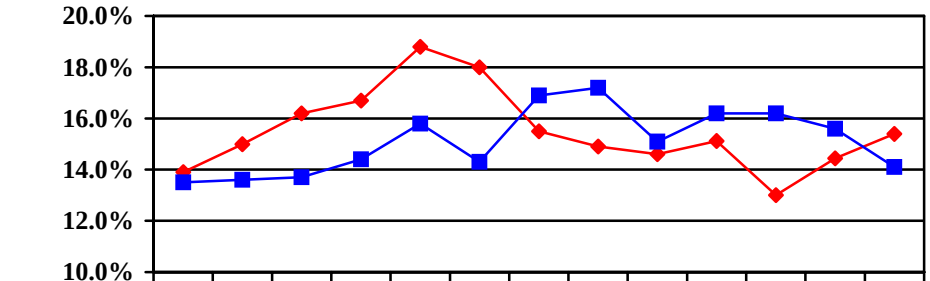
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Small businesses	3804	3733	4770	4391	4651	5484	5249	4829	4655	4633	4276	4745	5979
New small businesses	2206	1969	4142	2558	2253	2712	3772	2390	1989	1854	1654	1885	2631

climbing until the mid-1990s before declining but then recovering in FY02 and FY03. The failure of the Air Force to reach its goal from 1997-2002 is illustrated in Figure 2.

DISCUSSION

Effective metrics must be linked to organizational strategy. The organizational strategy, however, should be focused on what the organization wishes to achieve. In the public policy arena, the use of small businesses is both mandated and encouraged. The current metric used to measure success in public socioeconomic procurement programs provides one way to judge the effectiveness of these programs. Because it measures a percentage of total dollars awarded, the current metric can be skewed by

FIGURE 2
Graph of Current Small Business Metric



	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
SB %	13.90	15%	16.20	16.70	18.80	18%	15.50	14.90	14.60	15.12	13%	14.44	15.40
Goal %	13.50	13.60	13.70	14.40	15.80	14.30	16.90	17.20	15.10	16.20	16.20	15.60	14.10

increases and decreases in overall spending that do not necessarily correlate with overall efficacy of the socioeconomic program. By mandating use of this single metric, Congress dulls the focus of socioeconomic programs.

Rather than simply measuring the dollars awarded to small business contractors as a percentage of total dollars awarded, alternative metrics that capture the benefits of procuring from small businesses can lead to improved strategic emphasis within the socioeconomic programs. As demonstrated in the introduction, the true benefits for the public agency from contracting with small business are innovation and entrepreneurship. The current metric does not capture these benefits. To promote innovation and entrepreneurship requires a constant refreshing of the socioeconomic population, with small businesses constantly being cultivated and added to the public procurement agency's contracting core. The two metrics proposed in this research are more closely linked to a socioeconomic program strategy that promotes these two benefits.

By using metrics that are more closely linked to the program strategy, the effects of outside forces that impact the program can be better judged. Acquisition reform initiatives of the early 1990s could be interpreted as having a negative effect on socioeconomic programs based solely on the mandated metric (as seen by the failure to meet goals from FY1997 to FY 2003). However, the continued growth of the number of small businesses receiving contract awards, as well as the steady nature of the introduction of

new small businesses to the procurement arena, lead to an opposite conclusion: that acquisition reform initiatives of the early 1990s have not had a negative effect on socioeconomic programs. The alternate metrics also indicate that the reforms are not having a negative impact upon the benefits that accrue to the Federal government (access to innovation and entrepreneurial thinking) via small business procurement.

Public policy needs to take a broader look in judging the success of agencies' socioeconomic programs. Using the single metric approach may lead to wrong assumptions about the efficacy of these programs. By incorporating the two metrics proposed in this research, socioeconomic programs will not only be forced to examine how their strategy maximizes the benefits provided by small businesses, but it will provide a clearer picture of the overall success of such programs.

NOTES

1. The views expressed in this paper do not represent the views of the United States Air Force or the Deputy Assistant Secretary of the Air Force for Contracting.

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