Small Business Growth and Entrepreneurship

Lifting Barriers to Small Business Participation in Procurement

Small businesses are engines of economic growth and are a backbone of the U.S. economy. They are major job creators and are vital to ensuring that economic growth is not only inclusive, but that its benefits extend to the local communities in which these businesses operate. While this brief will discuss small businesses at large, it recognizes the historic barriers to survival and growth that U.S. small businesses owned and operated by minorities, women, and veterans face when trying to access capital and educational resources. JPMorgan Chase has significant interest in helping to address these barriers to level the playing field for small businesses. This brief explains why one of the most impactful ways to help underrepresented small businesses survive and thrive is by increasing opportunities for them to participate in both public and private procurement.

EXECUTIVE SUMMARY

Cash liquidity is a significant predictor of small business survival and larger cash buffers may also allow firms to reinvest in and grow their businesses. Across the industry spectrum, Hispanic- and Black-owned businesses generate significantly lower revenues than White-owned businesses and have lower cash buffers relative to outflows; however, they are just as likely to survive as their White-owned counterparts when revenues and cash reserves are comparable. Access to larger markets and more stable revenue streams through contracting can help businesses achieve the scale and cash flow needed to not only survive but also to mitigate adverse shocks and build capital. Despite employing millions of workers and generating trillions of dollars in revenue for the U.S. economy, women-, veteran-, and minority-owned businesses continue to face barriers to securing lucrative government and private sector contracts.

Corporations and non-profit organizations are developing targeted and specialized programs to improve underrepresented entrepreneurs’ ability to participate in supply chains. JPMorgan Chase, for example, has made a significant commitment to increasing the diversity of its suppliers. JPMorgan Chase aims to spend about $2 billion annually with diverse owned and managed companies. To build on this diverse supplier portfolio, in October of 2020, JPMorgan Chase made a commitment to increase its spend with Black, Hispanic and Latino businesses by $750 million as a part of the firm’s $30 billion commitment to help close the U.S. racial wealth gap.

In addition to individual corporate commitments, corporate coalitions help provide small businesses with opportunities for revenue and growth that come from contracting. JPMorgan Chase participates in the Billion Dollar Roundtable’s Leadership Coalition, which is comprised of roughly thirty Fortune 500 companies that collectively spend over $30 billion annually with diverse suppliers.

Despite these initiatives, there is much more that needs to be done, and the public sector can play a key role. Policymakers can help underrepresented small businesses survive and thrive by increasing opportunities for them to participate in procurement in the following ways:

1. Streamlining processes and enhancing resources available to small businesses to encourage participation in government contracting.
2. Reducing barriers to utilizing the Small Business Administration’s (SBA) 8(a) Business Development Program.
3. Promoting effective policies and strengthening data measures for federal government programs to grow and target underutilized markets.
CHALLENGE

In recent years, there have been significant disruptions in global supply chains, prompting corporations and governments to reassess dependencies and design more equitable processes by which businesses enter into such supply chains. Recent changes to federal procurement practices have aimed to create a more diverse pool of vendors that would benefit from the billions spent each year on federal contracts. While the federal government has awarded roughly one-quarter of their contracting dollars to U.S. small businesses in recent years, procurement policies and programs specifically targeted at increasing market opportunities for businesses owned by women, veterans, and minority entrepreneurs could materially support the survival and long term success of such businesses. To the extent that policymakers at the federal, state, and local levels use contracting as a mechanism to promote an inclusive economic recovery, equitable contract allocation is critical to broaden the base of recovery in the small business sector.

On November 15, 2021, President Biden signed into law the bipartisan Infrastructure Investment and Jobs Act—a $1.2 trillion investment that will create numerous contracting opportunities across agencies at the federal, state, and local levels with provisions intended to benefit small businesses and underrepresented entrepreneurs. Through the Small Business Act the federal government defined and created goals for four underrepresented subcategories: Small Disadvantaged Businesses (SDBs), Historically Underutilized Business Zone (HUBZone) businesses, Women-Owned Small Businesses (WOSBs), and Service-Disabled Veteran-Owned Small Businesses (SDVOSBs). On December 2, 2021, the Biden Administration asked agencies to increase their goals with SDBs so that government-wide spend would increase from 5 to 11 percent in an effort to reach a target goal of 15 percent by 2025. These two actions in tandem provide an opportunity to increase equity and small business participation. Even so, due to historic barriers, the following policy interventions are recommended to help small businesses owned and operated by women, minorities, and veterans more fully partake in contracting opportunities.

OVER $600b
Spent on Federal contracting in FY 2021

27% Went to small businesses
11% Went to small disadvantaged businesses (SDBs)
4.6% Went to women-owned small businesses, short of the 5% goal

More funds but fewer opportunities

From Fiscal Year 2020 to 2021,

$8.5b More Federal contracting dollars were awarded to small businesses, but
4,000 Fewer small businesses received contracts

SOLUTIONS

1. Streamline processes and enhance resources available to small businesses to encourage participation in government contracting.

Despite the federal government spending over $154 billion in federal contracts with small businesses in 2021 and steadily increasing contract dollars going to small businesses each year, the number of small business vendors contracting with the federal government has again decreased, according to the SBA, from 69,490 small businesses in 2020 down to approximately 65,428 small business prime contractors in 2021. In 2020, nearly 20 percent of businesses that employed workers were owned by minorities. Nearly all of these businesses are small businesses. However, minority-owned small businesses were only allocated 9.4 percent of federal contracting dollars, with some states reporting even smaller percentages. To help level the playing field, there is an opportunity for policymakers to:

• Invest in effective technical assistance connected to open contracting opportunities. Doing business with large enterprises can come with stringent expectations many businesses need help meeting. For example, the National Institute of Standards and Technology is a federal agency that oversees technology compliance for the US government. They also offer toolkits and guides that make information available to private sector firms and small businesses to support cyber readiness. However, the cost of creating and implementing cyber security programs can still be cost-prohibitive, preventing small businesses from fully participating in private and public supply chains. Due to the significant regulations on certain industries, high thresholds for requirements such as data handling and protection...
standards may result. JPMorgan Chase, for example, has estimated that the cost of cybersecurity planning assistance can range from $50,000 to $500,000 for firms to participate in large corporate supply chains and become contract-ready. To help address this barrier to entry, JPMorgan Chase has invested in cyber readiness by inviting diverse companies to receive a cybersecurity assessment through an established risk management utility (created by JPMorgan Chase and other financial services firms) and connecting them to related consulting resources, as well as, launching the Diverse Supplier Grant Initiative to help support small underrepresented businesses in meeting industry standards related to working with large enterprises. Policymakers should increase cyber readiness resources for federal technical assistance programs so that small businesses have the proper controls needed to safeguard them from security risks that may compromise their business and help them meet the compliance standards necessary to participate in supply chains.

- Build and invest in networking and mentorship programs that provide training, sponsorship, and greater access for businesses interested in contracting. According to the Biden Administration, the share of federal procurement by industry has revealed that small businesses owned by disadvantaged groups are generally underrepresented in certain sectors (e.g., transportation and warehousing). Requiring that agency mentorship programs, such as the SBA’s Mentor Protégé program and the VA Mentor Protégé Program, offer sector-specific mentorship opportunities could help address these disparities and help ensure that small businesses are fairly represented across different sectors.

- Review and improve SBA 8(a) performance metrics and set appropriate milestones to enhance effectiveness for program participants. According to a recent Office of Inspector General’s report, the SBA does not have consistent processes in place to monitor their participants’ progress towards accomplishing development goals. Although the program consists of a four-year developmental stage, a five-year transitional stage, and annual reviews, further measures and guidance are needed to ensure that small businesses can succeed within and eventually outside the program.

- Reduce burdensome administrative processes that deter or increase difficulty for eligible firms while maintaining the quality of the program. The SBA has stated that they are looking into which parts of the application process are burdensome. A review of the SBA 8(a) program during the Obama Administration found that of the 25 percent of applicants who were able to complete the process less than half of the completed applications were approved for the program. The review also found that third party firms, whose help may be vital to firms seeking SBA 8(a) approval, can charge as much as $75,000 for services due to process hurdles that include an extensive list of required supporting documents.

2. Reduce barriers to utilizing the SBA’s 8(a) Business Development Program.

The SBA’s 8(a) Business Development program provides technical assistance to firms controlled by socially and economically disadvantaged individuals (as defined by the SBA) so they can access contracting opportunities through set-aside or sole source contracts. While the goals of the program are laudable, reforms are needed to fully realize its potential. Many small businesses have identified various barriers to entry to the 8(a) program including lengthy delays in response time and a potentially costly application process. The federal government has made various changes to improve the program throughout the years, yet gaps remain. To improve the utility of the program, the SBA should:

- Increase the sole-source threshold for the SBA 8(a) program, which would allow contracting officers to provide more opportunities to small businesses given program participants would be eligible for larger contracts. Policymakers should consider these changes for HUBZone small businesses, SDVOSBs, and WOSBs as these thresholds have not been recently adjusted.

- Review and improve SBA 8(a) performance metrics and set appropriate milestones to enhance effectiveness for program participants. According to a recent Office of Inspector General’s
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As previously noted, measures in the Infrastructure Investment and Jobs Act will provide new opportunities for institutions and industries to leverage public private partnerships. In addition to making permanent the Minority Business Development Agency (MBDA), the landmark legislation established grant programs and created economic resiliency initiatives. These changes aim to enhance the voices of minority entrepreneurs in policy discussions and decision-making processes. The MBDA, housed within the U.S. Department of Commerce, is an agency dedicated to connecting minority-owned firms to domestic and international opportunities that support their growth. Among its goals is to help minority-owned businesses become part of supply chains and help SBA 8(a) firms who have graduated from the program secure contracts.

The MBDA, together with the SBA, are well positioned to prepare businesses to become procurement-ready and overcome existing challenges. To help ensure a fair and competitive marketplace for these small businesses, policymakers should:

• Establish a more streamlined process for government contracting certifications and create greater consistency between public and private certifications and certification bodies. Federal policymakers have taken recent steps to streamline this process, such as the changes made to approve certifications through the SBA rather than the U.S. Department of Veteran Affairs (VA) Center for Verification and Evaluation to certify SDVOSBs and Veteran Owned Small Businesses (VOSBs). However, there is still a significant need for coordination amongst the numerous certification bodies, many of whom have similar application requirements. This would help alleviate the administrative burden for small businesses to participate in supply chains.

• Improve data on underserved entrepreneurs’ participation in government supply chains. The federal government continues its work to conduct equity assessments at agencies in accordance with Executive Order 13985. Advancing Racial Equity and Support for Underserved Communities Through the Federal Government to provide more equitable opportunities for suppliers. To support this effort, it is necessary to better measure outcomes and provide publicly accessible and more comprehensive data on the government’s supplier base so that agencies can better pinpoint what is required to address existing gaps and small businesses are more aware of how to fully participate in federal procurement opportunities.

• Ensure that the maximum number of opportunities are available for small businesses to bid on contracts by reviewing how contracts are allocated and bundled. Federal agencies should follow the Office of Management and Budget’s (OMB’s) guidance that makes necessary changes to category management, a process by which agencies find the best possible (i.e., most resource efficient) buying practices for desired goods and services. Federal agencies should report their efforts to unbundle contracts in order to provide sufficient opportunities for small businesses, which in turn helps government to distribute risk across contractors and increase competition.

• Review and remove policies that have historically created an imbalanced burden or excluded minority entrepreneurs and provide appropriate feedback mechanisms for small businesses so that governments can reassess these policies as needed. In 2016, the MBDA cited discriminatory and non-discriminatory barriers to contracting for Minority Business Enterprises (MBEs). The list of barriers included a lack of good faith to incorporate these businesses as prime and subcontractors, difficulties securing bonding and insurance, and a lack of resources to compete for projects large in size.
PHILANTHROPIC COMMITMENTS

In addition to JPMorgan Chase’s commitment to increase supplier spending with Black, Hispanic and Latino-owned businesses, the firm has supported the Ascend national program. Designed by the University of Washington, Ascend supports diverse-owned businesses by applying a three-part ecosystem strategy centering: money, markets, and management. The program opens access to markets through contracting and supply chain partnerships, improves management skills, and increases access to money through loans and investments with goals to help businesses achieve over $1MM, $5MM, or $10MM in annual revenue. The Ascend model has enhanced public private partnerships and improved procurement practices, having seen the following results:

• In Ascend Illinois, the relationship and coordination between the Polsky Center at the University of Chicago and the Kellogg School of Management at Northwestern as well as anchor institutions like the Chicago Housing Authority and Rush Medical College allows small business owners participating in Ascend to access resources, share clients, and build networks that include current and past Ascend small businesses. Notably, 49 percent of Ascend participants note they diversified their customer base by contracting with new types of organizations. In an evaluation of all Ascend programs, this building of an ecosystem of partnerships resulted in 65 percent of profitable businesses (2019 and 2020) increasing their profits.50

• In Ascend NY-NJ-LI, collaboration and regional coordination among participants across public and private sectors like the Metropolitan Transportation Authority, Columbia University, Gilbane and Holt Construction, has resulted in increased access to contract opportunities for diverse business owners. As of June 2022, this program has helped support a $15.5 million aggregate revenue increase for businesses that have participated in the Ascend NY-NJ-LI Regional Market Access Program including 3 businesses that moved over the $1 million revenue level for the first time, two businesses that moved over the $5 million level for the first time, and 1 business that jumped the $10 million threshold for the first time.

Ascend supports small businesses as they grow, largely by connecting and equipping Black, Hispanic and Latino-owned businesses with the necessary tools to more effectively participate in supply chain processes in areas like Phoenix, Los Angeles, Portland, Seattle, New Orleans, Chicago, the Twin Cities, Houston, New York, Newark, and Long Island.

ENDNOTES

1 As established by the U.S. Small Business Administration (SBA), a small business concern must be for-profit, independently owned and operated, not nationally dominant in its field, physically located and operated in the U.S., and fit specific industry size standards which consider the businesses’ annual revenue and number of employees.


Small Business Act. 15 U.S. Code § 644


