

SBA Hearing Fields Opinions on Small Business

Chicago Tribune
June 21, 2005

CHICAGO - It should be an easy question: What is a small business?

But there was no agreement on a definition yesterday among those who testified before a Small Business Administration hearing panel in Chicago.

The debate goes far beyond semantics with billions of dollars worth of federal, state and local government contracts are at stake. The state and federal government regularly sets aside a portion of their contracts to foster the growth of small businesses. The federal government tries to award 23 percent of its contracts for small businesses.

Some attending argued no business with more than 100 employees should be classified as small, while others said a higher number than the SBA's current, general 500-employee guideline should be allowed.

Others said the SBA should focus on the revenue a small business can receive rather than the number of employees.

Whatever the measure, most agreed that the agency should try to help small businesses secure key contracts.

"Increasing the size" definition "will drive out any small business trying to compete," said Michael Edwards, president of Triton Manufacturing Co. in Monee, Ill. Edwards founded Triton, which manufactures components for electrical manufacturers and the U.S. Navy, in 1967.

The SBA indicated more than a year ago that it would like to change the definition and increase the number of employees a firm can employ - perhaps as high as 1,500 employees - and eliminate revenue as a determining factor.

But it was forced to scrap that plan after the proposal encountered stiff opposition from small businesses and small-business advocacy groups. The fight became even more vocal after a study by the U.S. Government Accounting Office found billions of dollars being awarded to large business under the guise they are small firms.

Large companies had been allowed to continue fulfilling the small-business contracts that were originally awarded to small firms they acquired, the GAO found. Then the firms were allowed to continue using the small-business designation when new contracts were awarded. The SBA banned that practice for new contracts last year.

"I can't believe that a large business can buy a controlling interest in a small business and then qualify for the small-business set-aside program," Edwards said. "It's wrong."

So far this year the SBA has refused to disclose its recommendations for defining small businesses until it has completed 11 hearings being held throughout the country and finishes evaluating more than 6,000 written comments. But it has said it is considering increasing the size of a small business and allowing large firms up to five years to bring their small-business contracts into compliance.

Currently, the SBA uses revenue as the key factors in defining a small business in most industries. Revenue measurements can range from as little as \$750,000 for a firm operating in an agriculture industry to as high as \$28.5 million for a heavy construction firm or a general contractor.

However, the SBA uses employees as the key factor for firms in the manufacturing and whole trade business. Manufacturing firms can have as many as 500 employees, while wholesale trade firms can have 100 workers and still qualify for the small-business designation.

Lloyd Chapman, president of the American Small Business League, a small-business advocacy group based in Petaluma, Calif., with 15,000 supporters, said: "When you talk to real small businesses, they want the size standard reduced to 100 employees and they want Fortune 500 companies out of the program."