

MINORITY BUSINESS DEVELOPMENT – “IS IT A REGULATORY REQUIREMENT?”

Ann Geter*

ABSTRACT. As a member of the Planning Team of a Project with the Columbus Ohio Chamber of Commerce to build a Comprehensive Minority Business Plan that stimulates Growth and Economic Impact, and as a participant in various workshops sponsored by the American Public Transit Association to address minority concerns, it became apparent that although there are numerous governmental programs in place to develop minority businesses, there are regulatory factors within these programs that present challenges which impede development. To this end, seven factors have been identified during within projects that the government (Federal and State) should evaluate as a means of streamlining and assessing the regulatory requirements that in many cases have an adverse effect of the success of minority businesses in competing for governmental contracts. The solutions presented are recommendations from majority and minority businesses, compliance officers and purchasing agents which were collected during workshops, interviews and focus groups.

INTRODUCTION

For almost two decades the government has been providing equal opportunity programs for minority businesses competing for U.S. Government contracts. In accordance with the Federal Code of Regulations parts 23 and 26 (1), the main program objectives are:

- To ensure nondiscrimination in the award and administration of contracts.
- Create a level playing field on which minority businesses can compete fairly for contracts.

** Ann Geter is the Director of Supply Management, Central Ohio Transit Authority (COTA) in Columbus, Ohio.*

- To assist minority owned businesses in competing outside of these government agencies.
- Help remove barriers to minority businesses.
- Assist in the development of minority firms so that they may compete successfully in the marketplace outside of these programs.

Most government agencies in the United States who are recipients of federal dollars must have a certification program to receive them. Therefore, it is prudent to research the question to make the determination as to the validity of the effectiveness of these programs.

DISCUSSION

In this presentation, I will present several factors that may be an impediment in the development of minority business as a result of barriers and regulatory imposed requirements.

Factor 1

Multiple certifications that ask for the same basic requirements may add to the cost of doing business and thereby impede minority business development. Certifications are requirements that are imposed by the U.S. Small Business Administration, the Department of Transportation (2), as well as many other Federal and State agencies.

Minority businesses are required to complete multiple certifications as a prerequisite of doing business with many governmental agencies. The administrative and management support as it relates to keeping multiple certifications current is costly and it takes an exorbitant amount of time to complete the requirements which oftentimes are redundant from agency to agency.

What Type of Relief is Needed?

- The government should institute one central office that manages the certification process to include the information that is required on the certification application.
- Although there is a unified certification process, there should be a review of the existing process to include reciprocity among states. This would relieve minority businesses that perform work in various states to only apply for one universal certification.

- A “one stop shop” for governmental agencies to access information regarding certified minority businesses (e.g. goods/services provided, expiration of certification, etc.) would provide access to an increased number of qualified minority businesses.

Solution

The government should recognize the redundancy of the information required for certification and create an information hub (web portal) where similar certification information can be located and allow for reciprocity across state lines.

Factor 2

Recognize that minority businesses are at different stages of development. Assistance must be designed to meet the needs of business at the different stages. This factor has been a challenge by governmental agencies such as the United Small Business Administration who attempt to provide business assistance training to socially and economically disadvantaged firms.

When assessing the development of minority firms, one must not take the position that “one size fits all”. Minority businesses, like non-minority businesses, have various levels of knowledge, capacity and growth. A start up business may not require the same type of assistance that a mature company would require. Organizations that have an interest in developing minority businesses should focus on defining what assistance means for the business to be developed.

What Does Assistance Mean?

When determining the assistance to be provided to develop a minority business one may ask the following questions:

- Are there resources available within the organization to provide mentoring to the company through the development stage?
- Does the company have a business and/or a marketing plan that needs to be updated?
- Are you focusing on the needs of that particular stage of development (e.g. different stage = different needs)?
- Is it possible to provide assistance in the certification process?
- Is a training/educational program required?

- Can support type services be provided (e.g. tuition funding, access to capital, bonding, demonstration projects, etc.)?
- Can information and resources be provided via networking?
- Is it possible to develop peer-to-peer mentoring/coaching partnerships?

Whatever the type of assistance provided, it should be measurable as well as achievable.

Solution

- Provide internal resources to mentor the minority firm through the various stages of development.
- Assist the firm in a business plan update or market plan update.
- Focus on the needs of that particular state (different state=different need).
- Develop training/education programs.
- Develop support type services (e.g. tuition funding, financing (access to capital), bonding, etc.).

Factor 3

Minority businesses need to have access to those individual(s) responsible for buying products and/or services and not be limited only to the supplier diversity coordinator.

What Does Having Access to Buyers Mean?

- Allowing minority firms to have one-on-one contact with end users.
- Afford minority businesses the opportunity to build relationships with the buyers and to understand the buying criteria of the organization.
- Develop training and educational programs that connect buyers to minority businesses.

Solution

Companies should create a culture in their organizations that require the buyers and the supplier diversity coordinator to partner to create ways for minority businesses to be introduced to buyers so the businesses

may learn about the suppliers’ capabilities. Organizations should have policies in place that clearly define the roles and responsibilities of buyers and supplier diversity coordinators and monitor the effort towards the development of minority businesses.

Factor 4

Supplier development programs should include contract opportunities for minority-owned professional service businesses that are usually not considered for development.

Minority businesses that provide professional services are oftentimes not considered for development opportunities as they are considered as “specialists” by the nature of their business status. Organizations should encourage minority-owned professionals to respond to their solicitations. Minority businesses, on the other hand, should have a clear understanding of the solicitation requirements based on their business knowledge and expertise. Minority businesses should collaborate with other minority professionals to grow their companies and to compete as a larger firm - industries such as IT, financial services, security, and legal services represent “non-traditional” areas in which the overall development of minority firms has been slow.

Solution

Organizations should evaluate their needs for all types of professional services and develop joint ventures when possible and assist in establishing partnerships between primes and minority businesses.

Factor 5

Many companies are not committed to supplier diversity and join minority business organizations for the sole purpose of obtaining monies and a positive public image.

How Do We Know That a Company is Not Committed to Supplier Diversity?

- Companies have not developed a policy or mission statement which adopts supplier diversity into their business practices.
- There is no requirement from the leadership of the company that a percentage of purchases are to be spent with minority businesses.

- There is limited or no relationships with minority firms over a specified period of time.
- There is no sponsorship of programs or events directed towards the awarding of contracts to minority business or developing minority businesses.

Solution

Companies participating in minority development programs should be required to publicly develop a weighted scorecard which indicates the amount of dollars spent with minority businesses and the number of contracts awarded at regular intervals. Companies should be required to demonstrate to the public by advertisement through the media that they support minority businesses and are committed to sharing the wealth with minority companies.

Factor 6

Minority businesses need to be able to obtain bonding at reasonable rates. With the increased costs in obtaining bonding small businesses generally do not have the financial means to support the collateral and/or security that the surety seeks. The high cost of bonds has an impact on profit margin and businesses must be well established to obtain bonding. For these reasons, the Ohio Department of Development (3) has designed a bonding assistance program to assist Minority businesses who otherwise cannot obtain bonding.

Solution

Although bonding is usually required in construction-type contracts, companies are known to place unnecessary bonding requirements in other contracts. Buyers should perform an assessment of their risks and determine if bonding is the most appropriate way to reduce those risks. Obtaining letters of credit and certified checks are acceptable methods used in lieu of obtaining bonds from a surety.

CONCLUSION

Minority business development fosters economic development and minority groups are on the verge of becoming the majority of the population. It is critical then that the government evaluate the current status of its programs to ensure that they are effective and efficient.

Barriers such as redundancy in duplicative information in the certification process, excessive bonding and the non-acceptance of state to state reciprocity should be eliminated. Buyers and supplier diversity coordinators should be held to standards of accountability to ensure that minority businesses are consistently afforded the opportunity to participate on contracts and to maintain a highly capable supply that is comprised of minority businesses. Organizations should recognize the critical importance of minority businesses in economic development and foster the growth of not just small businesses, but also those companies of size and scale that are positioned in growth industries. Once companies embrace these matters it is likely that the development of minority businesses will be an overall success and be elevated to a higher level.

REFERENCES

Code of Federal Regulations Part 23 (49 CFR 23), and Part 26 (49 CFR 26).

Ohio Department of Development Minority Business Bonding Program, available at www.odod.state.oh.us.

United States Small Business Administration, About Small Disadvantaged Business (SDB Certification and eligibility retrieved May 2006) available at www.sba.gov.