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**Contracting reforms anger small businesses**

By TOM SPOTH | Last Updated: June 6, 2010

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Some of President Obama's contracting reforms are hurting small businesses, advocates say. Their concerns:

- A directive to bring contracted work back into the federal government may take more business and employees from small contractors than from large ones.
- Efforts to consolidate agencies' purchases of common goods and services will generate larger contracts for which small businesses can't compete.
- Stricter paperwork requirements create additional costs that small contractors can't absorb.

"There's a disconnect between what I think is an innate desire to promote small businesses, and the policies that are being put into place that raise significant barriers," said Larry Allen, president of the Coalition for Government Procurement industry group.

Joseph Jordan, associate administrator of the Small Business Administration's Office of Government Contracting and Business Development, said he is pressing the Office of Management and Budget to make sure small businesses don't get squeezed out by insourcing initiatives. When agencies convert contracted positions back to posts for federal employees, Jordan said, it's easier to target "bite-size" chunks of jobs that often fall under small-business contracts.

Jordan also said "strategic sourcing" efforts — which encourage agencies to band together on contracts to increase their purchasing power — lead to larger contracts for which small businesses can't compete.

"We need to make sure these things aren't fraught with unintended consequences," he said.

SBA is responsible for tracking and assisting agencies in meeting a congressionally mandated goal that 23 percent of all federal contract dollars go to small businesses. In fiscal 2008, the most recent year for which data are available, only 21.5 percent of total spending went to small businesses.

OMB's policy guidance on insourcing is still months away from being finalized, but agencies such as the Defense Department have proceeded with their own programs to bring jobs in house. Insourcing already "clearly is having a detrimental impact" on small businesses, said Robert Burton, a partner at the Washington law firm Venable and a top procurement official in the Bush administration.

Functions being insourced include information technology support, maintenance, landscaping and food services — all areas where small businesses get many government contracts, Burton said. Even if work under a larger contract is insourced, Burton said, prime contractors might shift the impact by dropping smaller subcontractors to keep on their own employees.

The cost of complying with stricter requirements could also deter small businesses from bidding on federal contracts, Allen said. Examples include the new mandate for agencies to buy environmentally friendly products and the E-Verify program to determine employees' eligibility to work in the U.S., Allen said. The administration is also weighing a "High Road" initiative that would favor companies that offer higher pay or better benefits to their employees — and that would be harmful to small companies that are less capable of offering competitive compensation.

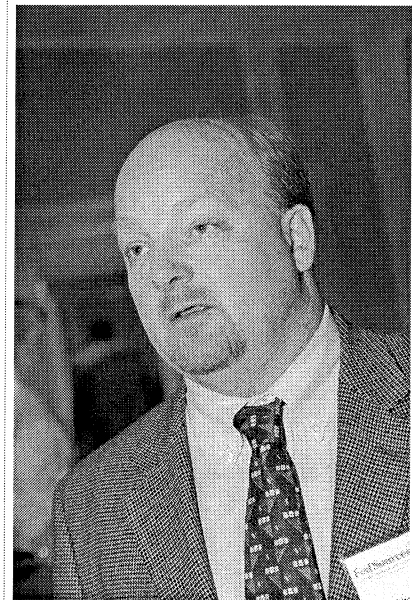
Five senators led by Maine Republican Susan Collins criticized the "High Road" proposal in a Feb. 2 letter to OMB Director Peter Orszag. The letter said the initiative "could preclude [small businesses] from competing effectively for contracts," opening the door for larger firms to charge higher prices to the government.

Obama addressed contracting opportunities for small businesses April 26, when he created an interagency task force to review the topic. He wrote that "small-business contracting should always be a high priority in the procurement process" and directed the group — which includes Orszag and SBA Administrator Karen Mills — to develop strategies within 120 days for increasing small-business participation.

The memo didn't address the reforms that have raised alarm bells, but instructed the task force to look at "establishing policies, including revision or clarification of existing legislation, regulations or policies" to aid small businesses.

White House officials weren't available for comment on this story.

Lloyd Chapman, president of the American Small Business League, isn't expecting much. He campaigned for Obama in 2008 but says he has lost confidence in the president's commitment to help small business. Obama hasn't followed through on campaign promises to help small businesses, Chapman said, namely a pledge to stop large businesses from getting contracts that are officially counted toward the government's small-business goals.



Larry Allen, president of the Coalition for Government Procurement industry group, says policies being implemented by the Obama administration "raise significant barriers" for small firms trying to do business with the federal government. (Staff file photo)

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