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contribution to the small business community.

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George Washington University

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THE SMALL BUSINESS ADMINISTRATION AND  
ITS CONTRIBUTION TO THE SMALL  
BUSINESS COMMUNITY

by

Kevin Carey Kirwan



THE SMALL BUSINESS ADMINISTRATION AND ITS CONTRIBUTION  
TO THE SMALL BUSINESS COMMUNITY

BY

Kevin Carey Kirwan

Bachelor of Arts

Tufts University, 1959

A Thesis Submitted to the School of Government and  
Business Administration of The George Washington  
University in Partial Fulfillment of the  
Requirements for the Degree of Master  
of Business Administration

June, 1969

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## CHAPTER I

### INTRODUCTION

The small business community has had a history of fighting a losing battle in its struggle against big business and the American economy. Contributing to this poor existence has been the lack of a guiding hand to examine small business's problems and to attempt solutions to these problems.

#### Statement of the Problem

The American economy, at its inception, consisted mainly of small individual entrepreneurs, and entry into the marketplace and free competition among the competitors were no substantial problems. A businessman, with a good or service to offer, could set up shop without the fear of price-cutting tactics or ruthless monopolistic practices jeopardizing his ability to earn a living.

As our national economy grew, molting its predominantly agrarian shell and becoming more and more industrialized due to increasing technological advancement, large companies and corporations began to arise, and the business world structure became more sophisticated and stratified. Partnerships, associations, companies and corporations all appeared on the scene and posed a very real threat to the security of the single





entrepreneurship, i.e., the small businessman. Economies of scale, new innovations not available to the businessman lacking adequate capital to finance them, and moves to increase individual shares of the market, all jeopardized the position of the small businessman in the new economy.

The small businessman has continued to be a very basic and important segment of the American economic structure. He has remained present, although his cast changes, and persists in his struggles for survival in the various competitive fields of business. Some have managed to remain throughout; others have not been so lucky. The Federal Government has attempted to keep entry into the marketplace and free competition within the commercial community available for all via legislation and regulatory agencies. The Sherman Anti-Trust Act of 1890, the Federal Trade Act of 1914, and the Robinson-Patman Act of 1936 are examples of legal actions designed to prevent business failures caused by indiscriminate anti-competitive practices within the commercial world. Agencies such as the Federal Trade Commission, the Anti-Trust Division of the Justice Department, and the Securities and Exchange Commission fulfill similar roles.

The aforementioned laws and investigative and regulatory bodies all represented attempts at preserving the fundamental tenets of American commercialism, entry into the market and maintenance of free competition. However, these attempts by government aided business only after it had independently achieved a condition suitable for "entry into the market."



Nothing represented an effort to help prepare entrepreneurs to get themselves ready for the independent struggle in the competitive environment. Plainly, what was required was a program designed to adequately prepare small business and its lieutenants, the small businessman, with the managerial tools for economic stability. The ability and means wherewith to obtain adequate loan capital and the managerial "good sense" to make use of that capital in the most efficient manner, would help equip most business aspirants to compete on an equal basis with other new entrants in the "marketplace."

The first such attempt to meet the needs set forth above was manifested in the Small Business Act of 1953, which created the Small Business Administration on a temporary basis. The SBA was established on a permanent basis by the Small Business Administration Act of 1958, as amended. The SBA is designed to be the national level voice of small business, and as such, offers a multitude of financial and managerial programs designed to assist and educate small businessmen in the proper methods for survival.

#### Method of Presentation

In the following chapters this thesis shall attempt to answer the main question: How has the Small Business Administration aided small business in the competitive environment? Each aspect of the SBA shall be examined and an attempt made to draw decisive conclusions on the effect of SBA's



programs toward alleviating the magnitude of small business's problems.

In order to assess the value of the contributions of the SBA, the following subsidiary questions will form a pattern of evaluation:

1. What was the position and situation of small business prior to the inception of the Small Business Administration?
2. How was/is the Small Business Administration organized to aid and develop small business and small businessmen?
3. How effective has the Small Business Administration been to date in meeting the needs of small business?
4. What problem areas, if any, still remain for the small businessman and the SBA?

Chapter II will deal with the background of small business's problems and will discuss early attempts at study and correction of the inequities found in the business atmosphere. The economic situation surrounding the inception of our industrialized pattern of change will display how our nation lost its agrarian characteristic in favor of a predominantly commercial one.

Chapter III will be concerned with the legal aspects of the Small Business Administration. The Small Business Act of 1953, and the Small Business Act of 1958, as amended, represent the core of SBA's legality. The provisions of these acts will be examined to portray the intentions of the National Government in



establishing the SBA, and the role the SBA was to play in aiding the small businessman. The establishment of Small Business Investment Companies, occasioned by the Small Business Investment Act of 1958, represents an additional federal attempt at improving the plight of small business.

Chapter IV, SBA Financial Programs, discusses the variety of means that financial assistance to small business may take and the requirements for eligibility of the various programs.

Chapter V, SBA Management Programs, examines the attempts by the SBA at raising the level of managerial competence of the small businessman. The programs and courses available will be discussed with an aim at portraying the variety of aid available.

Chapter VI, Procurement Assistance, discusses the various ways in which the SBA's efforts are directed at obtaining work and contracts, particularly in the government contract area.

Chapter VII discusses the organizational framework on the national, state, and local levels of the SBA.

Chapter VIII is aimed at presenting a synopsis of the results to date of the success of the SBA in alleviating the problems of small business. From these results, conclusions will be drawn about the effectiveness of SBA in improving small business's ability to cope with the competitive environment.

The methodology of this thesis consists primarily of secondary research to attain a knowledge of small business's history and past problems and the efforts exerted to attempt





solutions to these problems. Secondary research also provided an insight to the various small business programs offered by the SBA and the organizational structure used by the agency to implement these programs.

Primary research was utilized in arriving at the conclusions concerning the effectiveness and the results of the SBA programs. A determination of the contribution of the SBA to small business society was drawn on the basis of this primary research.

While conducting the research for this thesis, the author was very much impressed by the efforts which have been expended toward solutions to the problems of small business by the Federal Government. After taking a relatively long time to realize the delicate position of small business within our national economy, the Federal Government has at last exerted a concerted and conscientious attempt at aiding the small businessman by the organization of the Small Business Administration. The overall atmosphere of this writing attempts to portray what federal aids are available to the small businessman. It remains for him to take advantage of them.



## CHAPTER II

### BACKGROUND

#### Early Economic Atmosphere

Americans have always placed a high value on individual enterprise. The great esteem in which singular effort is held results from historical experience. Early American economic advancement has been characterized by the "rugged individualism" tradition, which is so predominant in all areas of American development and thought. Beginning with the early Colonial days, economic independence was manifested in the fact that the large majority of the productive population owned the factors of their toils. Even those who came under the classification of indentured servants for the most part eventually ended up becoming independent producers by the time their period of serfdom terminated.<sup>1</sup>

Most early Americans, by necessity produced only what they themselves needed, and their early products and services were usually restricted to the staples which could be grown, and the routine tasks of everyday agrarian life. As land expansion

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<sup>1</sup>Joseph D. Phillips, Little Business in the American Economy (Urbana, Illinois: The University of Illinois Press, 1958), p. 1.



caused the eventual grouping of families by geographical sections, urban communities arose, and the early town merchant emerged. This early entrepreneur began by offering services such as blacksmithing, or perhaps shipping, or even moneylending.<sup>1</sup> The small agrarian producer persisted, never realizing that his days as the dominant character in our economy were beginning to wane.

Early America was also comprised of people who owned no property, or who themselves were the property of others. However, the dominant characteristic of this society was that the vast majority of the nation were owners of their own means of livelihood, or more plainly, they were entrepreneurs. Rank and position within the society were determined by the amount of property owned. A society of independent enterprises was a firm root in the formative aspects of our country as an emerging young nation.<sup>2</sup>

Thomas Jefferson, a devotee to the principle of universal small property, considered the farmers as "the chosen people of God, if He ever had a chosen people," because they displayed "the happy mixture of a man's personality and his property, and, as a result, they were free."<sup>3</sup> The moral importance of the

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<sup>1</sup>Kurt B. Mayer and Sidney Goldstein, The First Two Years: Problems of Small Firm Growth and Survival (Washington: Government Printing Office, 1961), p. 1.

<sup>2</sup>Ibid.

<sup>3</sup>John H. Bunzel, The American Small Businessman (New York: Alfred A. Knopf, 1962), p. 17.



American farmers is based on the assumption that "the essential nature of American society at its best derives from the rural community of free, independent land-owning, God-fearing farmers."<sup>1</sup> Jefferson, at his first inaugural address, recapitulated his economic philosophy by advocating that government should by all means protect the populace from internal and external injury, but that the nation should otherwise rely on the natural force of economics to restore natural freedom and equality. This philosophy, tinged with Adam Smith's laissez-faire and invisible hand doctrines, was generally directed at the farm community, but its tenets could apply to the small entrepreneurs as well.<sup>2</sup>

The predominantly agricultural economy actually nurtured the flourishing of a capitalist society. The same characteristics innate in the farmer, initiative and individual freedom of choice, were imparted to those set on becoming a part of the enterprise world. The potential for a blossoming capitalistic economy existed and small business, in its infancy stages, thrived and reached the summit of its success in the 1820's. At that time, the dominant form of production was "cottage production," a system whereby goods were produced in the home, or in a barn or garage, as opposed to "factory production" as we know it today.

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<sup>1</sup>V. O. Key, Politics, Parties, and Pressure Groups (New York: Thomas Y. Crowell Co., 1947), p. 18.

<sup>2</sup>Bunzel, Small Businessman, p. 17.





Lewis Corey describes the economic society of that time in those words:

Out of this society of small producers rose the American Dream. It was a dream of liberty and progress moving irresistibly onward to new and higher fulfillment. Most vital was the ideal, determining all the other ideals, of the liberty and equality of men owning their independent means of livelihood.<sup>1</sup>

The impact of the Industrial Revolution significantly reduced the importance of the farmer. The proportion of small businessmen gainfully employed in agricultural production was reduced from 72 per cent in 1820 to 51 per cent in 1870. At the same time, the non-farm enterpriser has remained and his numbers have increased, from 1.2 million in 1880 to 5.4 million in 1950.<sup>2</sup>

Another historical event forecasted a second decline, this time the dominance of the small non-agricultural producer. This event was the American Civil War, which ended the domination of American economic life by small scale capitalism. The most significant economic change was the total effect that industrialization was imparting to the business community. The corporation largely replaced the individual as the basic unit of production. Technological advancements, coupled with such other factors as transportation improvements, increase in a cheap labor market due to expanded immigration, and the commencement of a banking system provided the material, labor, and capital

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<sup>1</sup>Lewis Corey, The Crisis of the Middle Class (New York: Covice-Friede, 1935), p. 113.

<sup>2</sup>Mayer and Goldstein, The First Two Years, p. 2.



necessary for increased production on an expanded scale.

In spite of the emergence of the corporation, small business did not disappear from the scene. Rather it persisted, but was held in the shadows of big business. This continuance is remarkable, but does not tell the whole story. The persistence referred to is that of small business, not of individual units. The perseverance and durability of the aggregate number of small firms does not imply the stability of the individual business concern. The business society underwent a rapid continual turnover of small concerns. The total number of small producers has increased constantly each year, but underlying this truth is the fact that the composition has been in a constant state of flux. There has occurred a continual succession of business entries and discontinuances with a total resultant condition of a difficult struggle for individual survival.<sup>1</sup> As an example, available statistics show that from January 1, 1955 to December 31, 1958 the total number of small business firms in operation increased from 4,287,000 to 4,589,000. This 302,000 increase in the number of firms consisted of 1,656,000 newly established businesses and 1,354,000 small firm failures. In the same period, 1,526,000 firms changed ownership. Although the latter figure does not affect the overall change in the number of firms, it is an indication of small firm instability.<sup>2</sup> Further statistical

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<sup>1</sup> Ibid., p. 5.

<sup>2</sup> Statistical Abstract of the United States, 1959, p. 485, quoted in Mayer and Goldstein, The First Two Years, p. 5.



evidence of turnover is found in Tables 1 and 2.

TABLE 1  
BUSINESS TURNOVER, 1945-1955  
(in thousands)

Year	New Business	Discontinued Business	Business Transfers
1945	422.7	175.6	473.2
1946	617.4	208.7	626.9
1947	460.8	239.2	571.9
1948	383.3	282.0	501.3
1949	331.1	306.5	434.7
1950	348.2	289.6	419.4
1951	363.2	309.3	378.3
1952	363.9	306.4	374.9
1953	340.5	334.0	356.2
1954	334.2	330.6	319.7
1955	374.2	310.9	321.3
<u>Annual Average</u>			
1945-1948	473.3	226.4	543.3
1949-1952	351.6	302.9	401.8
1953-1955	349.6	325.2	332.4

Source: U. S. Department of Commerce, cited by Wilfred Lumer, Small Business at the Crossroads (Washington: The Public Affairs Institute, 1956), p. 57.



TABLE 2

## BUSINESS FAILURES, 1945-1955

Year	Number	Failure Rate per 10,000
1945	809	4.2
1946	1,129	5.2
1947	3,474	14.3
1948	5,250	20.4
1949	9,246	34.4
1950	9,162	34.3
1951	8,058	30.7
1952	7,611	28.7
1953	8,862	33.2
1954	11,086	42.0
1955	10,969	41.6

Source: Dun and Bradstreet, Inc. cited by Wilfred Lumer, Small Business at the Crossroads (Washington: The Public Affairs Institute, 1956), p. 62.

This great percentage of small business concerns among commercial turnovers strongly implies that small firms are less stable than the larger firms of big business. The situation, one of relative instability, accurately describes the economic atmosphere under which small business was waging its struggle before any effort of consequence was exerted on its behalf.

#### Trouble Areas for Small Business

The classic story of small business has been that it was started "on a shoestring," developed from its own capital, and then had to struggle to accumulate sufficient working capital to sustain itself through business cycles and the burden of slow





payback on the extension of customer credit.<sup>1</sup> This story adequately describes the plight of small business up through the first half of the twentieth century.

For years one of the most common complaints by small businessmen has been the difficulty in obtaining credit, particularly long-term credit. Loans to finance expansion were almost non-existent. Bankers clearly believed that loans to small business represented undue risk danger.<sup>2</sup> Congressional investigations, hearings, and reports represent a substantial amount of research on this subject. The point in common about these writings is the agreement on the fact that if a small businessman is to be successful in a business venture, he must be able to complement his own limited internal capital resources with dependable external credit channels. This approach to expansion by the small businessman has not always met with success.<sup>3</sup>

A problem caused by non-availability of credit to small businessmen is that they are often forced to bring in new partners or sell stock, both of which tend to decrease the amount

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<sup>1</sup>U. S., Congress, Senate, Temporary National Economic Committee, Investigation of Concentration of Economic Power, Senate Committee Print (Washington: Government Printing Office, 1941), p. 260.

<sup>2</sup>Small Business Administration, Attitudes of Bankers Toward Small Business Financing (Washington: Government Printing Office, 1967), p. 1.

<sup>3</sup>Wilfred Luner, Small Business at the Crossroads (Washington: The Public Affairs Institute, 1956), p. 16.



of absolute control the original owner had. This situation undermines the small businessman's attempts at the traditions of "rugged individualism" and independence of management.<sup>1</sup>

In addition to having expansion curtailed by an unfavorable atmosphere in the private lending area, small businesses have an additional financial problem: having to rely on some form of security in the event of a natural disaster. Since many small firms have personal investment funds already tied up in equity capital,<sup>2</sup> loan capital is required to see these small firms and companies through a period of rebuilding. When bank credit is unavailable or the interest rate or credit terms unfavorable, small businesses oftentimes have to resort to what is known as "trade credit." As an example, in 1939, 80 per cent of nonfinancial business firms had debts to other firms, while only 35 per cent had debts to financial institutions.<sup>3</sup> Heavy reliance, almost in direct proportion to smallness, was placed upon "trade credit."<sup>4</sup> The effective rate of interest of "trade credit" was usually considerably higher than even short-term loans, and the small businessman's problem was further

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<sup>1</sup>H. N. Broom and Justin G. Longenecker, Small Business Management (Cincinnati: Southwestern Publishing Co., 1966), p. 78.

<sup>2</sup>Small Business Administration, Facts About Small Business Financing (Washington: Government Printing Office, 1967), p. 1.

<sup>3</sup>Phillips, Little Business, p. 77.

<sup>4</sup>Bunzel, Small Businessman, p. 48.



complicated because of the condition that these loans were usually their last effort at credit, and thus had to be accepted, or the business would run the risk of bankruptcy or close-out.

In a study made by the University of Denver of the financing problems of small businesses in Denver, a "financial gap" was found to exist most critically during the early part of a small business's rapid growth stage. The financial gap is defined as a want of long-term financing when the need is most critical.<sup>1</sup> Financiers still believe these small companies to be a bad credit risk, and if credit in the form of a long term loan is extended to these companies it is usually at a higher rate of interest. The reasons for these higher interest rates is obvious. Part of the answer lies in the proportionately higher administrative costs for smaller loans. Other rationale comes from the fact that almost all data available indicate that loans to small business concerns encounter greater losses per dollar than do loans to larger firms.<sup>2</sup>

When the small businessman cannot get funds, he may do poorly as a result. He then enters the vicious circle of becoming a statistic upon which small business is regarded as an unwise risk, which, in turn, makes financing more difficult to obtain.<sup>3</sup>

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<sup>1</sup>Small Business Administration, Small Manufacturers and the Financial Gap (Washington: Government Printing Office, 1967), p. 1.

<sup>2</sup>Bunzel, Small Businessman, p. 51.

<sup>3</sup>Ibid., p. 52.



Another financial problem area is caused by the adverse effects of taxation upon the obtaining of equity capital and the accumulation of sufficient reserve and internal funds. High corporate and personal income taxes restrict business growth and tend to penalize efficiency. These taxes are not so much taxes on big business as they are taxes on the chance of small business success and growth.<sup>1</sup>

With the scarcity in obtaining equity capital as great as has been presented above, and when it is available, the high interest rate which is necessary to obtain it, small business is left with only one alternative to use in financing expansion-- that is, to plow back retained earnings into the firm.

In a study of the "Effects of Taxes on Concentration" it was pointed out that:

The high rates of corporate income tax during recent years appear to have been by far the most important feature of the tax structure tending to increase the level of concentration. To the extent that this tax has not been shifted, it has restricted the growth of successful small companies much more severely than that of larger concerns. This conclusion applies to the effects of the tax on the availability of outside capital as well as on internally financed growth, although the latter is of greater importance. This restrictive effect of the tax has been especially marked with respect to the growth and growth potential of the more vigorous and promising concerns with the best chance of effectively challenging the established positions of their dominant competitors.<sup>2</sup>

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<sup>1</sup>Chamber of Commerce of the United States, Small Business: Its Role and Its Problems (Washington: Chamber of Commerce, 1962), p. 21.

<sup>2</sup>Lumer, Small Business at the Crossroads, p. 26.





Our present high rate tax structure works against the small businessman in that it deters investment in new business ventures. This is because of the reduced amount of retained earnings available to both firms and to individuals. People with above-average incomes seek other avenues of investment such as tax-exempt securities or low-income bonds where the relative degree of safety is high. In order to attract this source of finance capital to a new enterprise, the promise of substantial gain has to be assured.

A third area of concern for the small business is the lack of properly qualified management personnel. This problem is an extremely common one, and, along with inadequate capital, ranks as one of the principal causes of business failure. In the most common business enterprise, management commonly consists of one man. This one person is required to be skilled in finance, accounting, personnel, marketing and a host of other managerial areas. Needless to say, most competitive entrepreneurships cannot successfully be run by a "seat of the pants" operation, and be expected to stay in the running with big business for a share of customer income. Big business has managers who are either trained in the use of records and statements and their interpretation, and can adjust performance as the criteria dictate, or they employ experts in each of the important areas to guide them in their decisionmaking. In contrast, small firms do not normally possess the personnel with adequate training and experience to be able to forecast needed changes in the business



operation. They are seriously hampered by their limitations in education and experience.<sup>1</sup>

An analysis by Dun and Bradstreet of 17,075 bankruptcies in 1961 showed the majority of failures were due to deficiencies in management. It further disclosed that "even a concern with the finest plant or store, a meritorious line or product, and a great potential market will not long succeed under poor management."<sup>2</sup>

Incompetence was singled out by Dun and Bradstreet as the largest single causative element. Incompetence was used to describe businessmen who did not have the ability to plan, manage, or control. They usually lacked the basic intellectual ability or self-discipline needed in a line of business. This finding was substantiated by the American Institute of Certified Public Accountants:

Among businesses which fail there usually can be found violations of several of the basic principles of sound management, but perhaps the most prevailing single management deficiency is the lack of, or failure to use, adequate records. This, in turn, leads to uninformed management, and thence to poor planning and disaster.<sup>3</sup>

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<sup>1</sup>Broom and Longenecker, Small Business Management, p. 77.

<sup>2</sup>U. S., Congress, Senate, Select Committee on Small Business, Factors Influencing Small Business Failures and the Availability of Management Counseling to Small Firms, Senate Committee Print (Washington: Government Printing Office, 1962), p. 7.

<sup>3</sup>Ibid., p. 10.



Small business clearly needed some form of program to aid in improving the calibre of the people responsible for management. Some type of informative vehicle was required to school managers in the critical areas of entrepreneurship, and to equip these managers with the managerial instruments designed to analyze, forecast, and adapt to business situations.

#### Early Attempts at Study and Correction

History shows that it took time for the full impact and significance of this important segment of our society to be felt by our national political leaders, and for the passage of national legislation designed to foster small business by providing a guiding hand through the struggle of small business against competition and big enterprise. Not until the New Deal era and President Roosevelt's Washington Conference of Small Businessmen in early 1938 was a true effort toward approaching the problems of small business as an entity realized.<sup>1</sup>

Prior to that time, national efforts to aid the small businessman were largely manifested in antitrust legislation. The National Government realized the need for maintaining ease of entry and exit from the marketplace, and the need to preserve competitive markets. The government intervened with the intention of preventing or reducing monopolies. This action was particularly beneficial to the new small business which was

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<sup>1</sup>Bunzel, Small Businessman, p. 1.



striving to establish itself in the market world.

The Sherman Act of 1890 was fashioned to prevent monopoly and maintain competition, while two subsequent acts, the Clayton Act and the Federal Trade Commission Act, both passed in 1914, fortified the fight against complete control of the market by one, or a few, corporations. Although these three statutes--the Sherman Act, the Clayton Act, and the Federal Trade Commission Act--had as their objective protection of the consumer, they served a two-fold purpose by strengthening small business's competitive position.<sup>1</sup> Additional pro-competition legislation followed in the Robinson-Patman Price Discrimination Act, and the Miller-Tydings Resale Price Maintenance Act. The importance of antitrust legislation to the cause of small business comes from the fact that if business is uncontrolled, the concentration of economic power soon will put the squeeze on small business. It becomes subject to the desires of big business. Supplies and raw materials are available only at exorbitant prices, and small business soon finds its profits dwindling. A debilitating effect soon causes the demise of the little firm, with the entire economy suffering as a result. With the Antitrust Division and the Federal Trade Commission as watchdogs, big business is more cautious about swallowing up small, independent firms.

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<sup>1</sup>Franklin H. Cook, Principles of Business and the Federal Law (New York: The Macmillan Co., 1951), p. 250.





In 1932, under New Deal legislation, the Reconstruction Finance Corporation Act created the Reconstruction Finance Corporation (RFC). The Act, as amended, stated that the RFC was to "aid in financing agriculture, commerce, and industry, to encourage small business, to help in maintaining the economic stability of the country, and to assist in promoting maximum employment and production." <sup>Approved</sup> The RFC did a landslide business in financial operations, and managed to make it significantly easier for small business to obtain needed capital before its termination in 1953.

The Department of Commerce was instrumental in attempting to aid small business when in 1938, it hosted the Washington conference of small businessmen. In this conference, proposals to better the situation of the small businessman and complaints about existing situations were heard and discussed. The greatest benefit of this conference was in the aftermath, when over fifty "small business" organizations sprang up. Most of these organizations advocated revision of the tax laws and liberalization of credit. Congress joined in, and both houses kept their Committees on Small Business quite active. The Temporary National Economic Committee conducted its study on the Investigation of the Concentration of Economic Power, the findings of which brought to light, on a national scale, many of small business's problems.



A multitude of associations of all types and names arose and carried the fight for small business and its economic independence. The Chamber of Commerce of the United States, the National Association of Manufacturing, and the American Federation of Retail Kosher Butchers, are just a few of the organizations active at that time.<sup>1</sup>

The Federal Reserve Bank also entered into the host of those helping small business. Section 13b of the Federal Reserve Act provided for financial aid when an established business was unable to obtain funds from the usual sources. The Smaller War Plants Corporation Act of 1942 provided for the Smaller War Plants Corporation "to make loans directly or in cooperation with lending institutions to small concerns for war or essential civilian purposes." Subsequent to World War II, this lending authority was transferred to RFC.

With the outbreak of hostilities in Korea, the Small Defense Plants Administration was created to insure that small business received fair treatment by the military in their defense purchases. The SDPA did not possess lending authority, but was authorized to recommend loans to small business to the RFC. In about one year's work the SDPA aided small business in obtaining about \$700 million worth of defense contracts.<sup>2</sup> The SDPA was terminated in 1953.

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<sup>1</sup>Key, Politics, Parties, and Pressure Groups, p. 98.

<sup>2</sup>Lumer, Small Business at the Crossroads, p. 10.



All the preceding events were the result of an awakening, on a national level, to the plight and problems of the small businessman, and of small business. These events and studies, however, were temporary, and none truly represented a permanent and individual organization on which small business could consistently depend. What was needed was a permanent voice at the national level for small business. The Federal Government believes it has just such an agency in the Small Business Administration. Chapter III will show how the SBA evolved, and will examine the enabling and subsequent legislation pertaining to it.



## CHAPTER III

### ENABLING AND SUBSEQUENT LEGISLATION

#### Small Business Act of 1953

The early attempts by society and the Federal Government, although an improvement over the condition of small business which existed prior to these efforts, still left small business in a relatively insecure position in the national economy. Perhaps the most heard from activity subsequent to the milestone conference of small business in Washington in 1938 was the Senate Small Business Committee. From an examination of textbooks, magazines, and pamphlets of the era immediately subsequent to the Washington conference, it appears from the information available that approaches to aid small business were largely directed down the avenue of the Small Business Committee.

Senator James Murray, in a report to the Senate Small Business Committee, characterized small business as "a combination of social values, a pattern of civic life, a free society and a healthy competitive community."<sup>1</sup> He went on further

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<sup>1</sup>U. S., Congress, Senate, Select Committee on Small Business, U. S. Senate Small Business Committee--Its Record and Outlook, Senate Committee Print (Washington: Government Printing Office, 1945), p. 74.





to state: "It is the small businessman who is the foundation of the home town's growth and development."<sup>1</sup> This senatorial attitude was to find its eventual culmination in legislation favorable to small business, which for the first time would represent a voice at the national level for the small entrepreneur.<sup>2</sup> This representation was to be manifested in the Small Business Administration.

Before examining the Small Business Administration itself, and the Act and committee work preceding passage, an examination of the business activity and trends of the immediate period prior to the birth of the SBA is necessary. This cursory investigation will illustrate exactly how critical the inception of the SBA was, as a deteriorating business situation for the small firm was setting in. The period 1953 through 1955 has been described by Wilfred Lumer:

The period 1953-1955 has been described as one of unprecedented prosperity. Total expenditures for goods and services and business investment have reached all-time highs in 1955 and 1956. Behind this picture of peacetime boom there is another story. It involves the steady decline of small business in the economy and the growing concentration of business activity in fewer and larger firms.<sup>3</sup>

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<sup>1</sup>Ibid., p. 75.

<sup>2</sup>Lawrence Goullie, "Facilities of the SBA," Publisher's Weekly, October 17, 1960, p. 35.

<sup>3</sup>Lumer, Small Business at the Crossroads, p. 3.



Department of Commerce statistics proved that one out of every seven business firms was either liquidated or sold during 1955. The high turnover rate, supplemented by the high incidence of business failures and mergers, indicates the operating problems facing small business.<sup>1</sup>

In addition, several other circumstances were prognosticators of the small business activity downturn during the period 1953-1955:

1. Overall sales volume for small manufacturing concerns showed a decrease.
2. Average annual small firm profits after taxes decreased sharply.
3. Return on equity (ROE),<sup>2</sup> perhaps the best measure of profitability, had decreased 41.3 per cent for small firms. At the same time, big business displayed a 24.8 per cent increase.
4. The net quick asset ratio for small firms displayed a decrease.
5. Net working capital, which is an index of the ability of a firm to finance expansion, showed a 15 per cent decrease for small firms, while big business displayed a 29 per cent increase.<sup>3</sup>

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<sup>1</sup>Ibid.

<sup>2</sup>Return on Equity (ROE) is the rate of earnings after taxes in relation to the stockholder's equity.

<sup>3</sup>Luner, Small Business at the Crossroads, pp. 5-8.



Small business also required help in the defense procurement area following the outbreak of the Korean War in 1950. Because of the war there was a curtailment of civilian consumption. Added to this was an increasing material shortage. Production for small firms was dwindling, and these firms needed a fair share of military contracts in order to survive. The Small Defense Plants Administration aided in this area and forestalled the demise of the smaller entrepreneurs.

The halt of the Korean War in 1953 brought about an atmosphere of uncertainty concerning the SDPA, to date the only concrete federal attempt at establishing an agency specifically for small business. The Department of Defense relieved 205 small business specialists and representatives from their duties at procurement stations. These specialists were reassigned after Congressional intervention, but contract awards to small business nonetheless dwindled.<sup>1</sup>

The Reconstruction Finance Corporation (RFC), designed to help alleviate the capital problem of business, large or small, was a help to small business, but its aid was limited to financial assistance. Clearly, what was needed now was an agency designed specifically for small business, and organized to render assistance in all the problem areas of small business.

The Senate Committee on Banking and Currency long were the advocates of just such an agency. In consideration of the

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<sup>1</sup>Ibid., p. 10.



bill to establish the Small Business Administration, the Committee was wholeheartedly in favor of the Administration. The Committee proclaimed small business to be "the bulwark of free competitive enterprise." In endorsement of the proposed SBA, the Committee specifically stated in May of 1953 that:

Congress recognizes the importance of small business to our free competitive economy and in this bill declares as its policy--that the Government should aid, counsel, assist, and protect insofar as is possible the interest of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small business enterprises, and to maintain and strengthen the overall economy of the Nation.<sup>1</sup>

The Committee gave further justification to the Act by disclosing that the proposed Administration would eliminate duplication of functions and thereby cut expenses. The new agency would have the responsibility for administering programs to "preserve and develop small business."<sup>2</sup> Further, in its Report of July 18, 1953, the Committee recognized that the present federal efforts toward assistance to small business were limited to the SDPA, and that the Administration was genuinely interested in the development of small business in order to make its

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<sup>1</sup>Hearings before the Senate Committee on Banking and Currency on the Small Business Administration Act of 1953, 83rd Cong., 1st sess., Report No. 494, dated May 28, 1953, p. 3.

<sup>2</sup>Ibid., p. 2.





"maximum contribution to the national economy."<sup>1</sup>

The Small Business Act, in addition to the favorable endorsements of the Committee on Banking and Currency, was championed by the Select Committee on Small Business, and through these combined efforts, the Act was passed into law on July 30, 1953, as Public Law 163.

In this attempt to render governmental assistance to the small business sector, the Act tasked the new agency with four fundamental responsibilities:

1. Assistance to small firms in obtaining of credit.
2. Aid in procuring a fair share of government contracts.
3. Help in the solution of management and production problems.
4. Provision of financial assistance occasioned by damage and destruction from floods, fire, tornadoes, and similar events.<sup>2</sup>

The above listed functions are fully in accord with the government's professed aim to maintain the requisites for a free enterprise system.<sup>3</sup> The details of these areas will be examined in later chapters.

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<sup>1</sup>Hearings before the Senate Committee on Banking and Currency on the Small Business Administration Act of 1953, 83rd Cong., 1st sess., Report No. 604, dated July 18, 1953, p. 2.

<sup>2</sup>Broom and Longenecker, Small Business Management, p. 17.

<sup>3</sup>Vernon A. Mund, Government and Business (New York: Harper & Brothers, 1955), p. 258.



Thus, for the first time, small business was represented by an official agency of the Federal Government. This was an agency specifically designed for small business problems and their solution. Concurrent with the establishment of the SBA, the Reconstruction Finance Corporation (RFC) and the Small Defense Plants Administration (SDPA) were terminated. *Dip not*

#### Small Business Act of 1958, as Amended

The Small Business Administration by this Act was made a permanent agency on July 18, 1958 under the direction of, and responsible to, the President. This Act terminated Public Law 163, which had established the Administration on a temporary basis.

The text of the Act itself was nothing more than skeletal constitution of the agency, delineating its purposes, programs, responsibilities, and functional organizational framework. The Act has been amended several times during its life, and these amendments represent Congress's attempts to keep the SBA current with its needs, and to adapt it to correct any errors caused by previous legislation.

To explain the Act section by section would be voluminous, and, at this point, would serve no real purpose. Each of the pertinent areas discussed and provided for in the Act will be tendered sufficient treatment and explanation in succeeding chapters.

#### Small Business Investment Act of 1958, as Amended

As has been stated earlier, small businesses, in general, have a common problem. That problem is to obtain long-term



capital for business expansion purposes. Small business required another source of credit in addition to private banks, which often turned them down for a loan, and the SBA. The SBA was always willing to help a small firm, but even at the SBA, the credit string could run out. To aid the small businessman in this situation, Congress passed the Small Business Investment Act on August 21, 1958.<sup>1</sup>

The Small Business Investment Act of 1958 provided for Small Business Investment Companies, which are private investment companies, sanctioned by the SBA and owned by small groups of local investors, banks or corporations. SBIC's are completely private, and, exclusive of being required to operate within SBA regulations, they have no connection with the SBA.

Additionally, Titles IV and V of the Act provided for Lease Guarantees, and State and Local Development Companies. These provisions are additional vehicles to assist the small businessman in his financial ventures. These measures will be discussed separately under SBA's Financial Programs in the following chapter.

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<sup>1</sup>Small Business Administration, SBIC Financing for Small Business--Money for Growth (Washington: Government Printing Office, 1968), p. 4., and Small Business Administration, SBIC (Washington: Government Printing Office, 1968), p. 4.



The legislation described above provides the nucleus for SBA's operations. The Acts are constantly under scrutiny and surveillance by the SBA and Congress, for possible required revisions. Congress has so far been very responsive in providing for change, and with these changes has come flexibility for the SBA.





## CHAPTER IV

### SMALL BUSINESS ADMINISTRATION FINANCIAL PROGRAMS

#### Business Loans

Small Business Administration loans are one of five different types of commercial, industrial and financial loan programs offered by the United States Government, but are the only category specifically designed to foster small business growth and/or economic recovery.<sup>1</sup> One other class of government loan available to industry is a type of loan designed to facilitate and expedite the financing of persons having contracts or engaged in operations deemed necessary for national defense. This also is financing under government guarantee, but through a Federal Reserve Bank. These loans, however, are restricted to contractors and subcontractors doing business with a government defense-oriented agency (Army, Navy, AEC, etc.).<sup>2</sup> For the small businessman seeking government financial assistance the largest program available is that of the SBA. SBA business loans have

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<sup>1</sup>Small Business Administration, Loan Sources in the Federal Government (Washington: Government Printing Office, 1968), pp. 1-2.

<sup>2</sup>Ibid.



helped numerous firms get started, expand, grow, and prosper.<sup>1</sup>

The first criterion for meeting loan program qualifications is that the applicant be a small business. For business loan purposes, the SBA defines a small business as one that is independently owned and operated and non-dominant in its field.<sup>2</sup> A manufacturing concern is classified by SBA as small if it has 250 or less employees, and as a large business if more than 1000 employees. Within the spectrum, a company may be either small or large depending on standards set by SBA in the specific industry in question.<sup>3</sup>

In addition to number of employees, the size of a firm's assets is also considered in determining qualification as a small business. A manufacturing concern with assets under \$1 million is small. Non-manufacturing companies are rated by level of annual sales volume, requiring a sales volume of \$5 million or less for qualification. The standard for retail or service trades is an annual sales volume of \$1 million or less. The bases applied to other industries vary within these parameters and classification is heavily dependent on the type of business involved.<sup>4</sup>

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<sup>1</sup>Small Business Administration, SBA Business Loans (Washington: Government Printing Office, 1968), p. 2.

<sup>2</sup>Bunzel, The American Small Businessman, p. 30.

<sup>3</sup>Donald J. Hart, Business in a Dynamic Society (New York: The MacMillan Company, 1965), p. 56.

<sup>4</sup>Ibid., p. 57.



The Small Business Act portrays the SBA's role in strengthening competition by fortifying the position of small business within the economy. A major policy at the national level is to achieve balanced economic growth through planned community development. Precedence is given to loans designed to eliminate urban poverty and to improve areas of depressed rural economy.<sup>1</sup> Small manufacturers, wholesalers, retailers, service activities and other businesses may borrow for construction, expansion, conversion, purchase of buildings, equipment or materials, or to secure working capital.

Other important general restrictions on all SBA lending programs exist. First, the SBA, by law, is not allowed to make a loan to private business if funds are available from a bank or private lending service. Evidence must be presented that a loan was applied for from a local bank, and, in the case of a business located in a city of a population of 200,000 or greater, evidence of loan attempts at two banks is required.

A second restriction is that businesses will not exercise any discrimination in employment or in services to the public based on race, color, creed, or national origin. Among other causes for ineligible loan applications are the following:

1. If the loan allows speculation in any kind of property.
2. If the applicant is a newspaper, magazine, book publishing company, radio broadcasting company or similar enterprise.

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<sup>1</sup>Small Business Administration, SBA Business Loans, p. 3.



3. If 50 per cent or more of the net sales of the applicant is derived from the sale of alcoholic beverages.

4. If any of the gross income of the applicant is derived from gambling activities.

5. If the purpose in applying for a loan is to effect a change in ownership of the business; however, loans may be authorized for this purpose if the result would be to aid in the sound development of a small business or to keep it in operation.

6. If the loan encourages monopoly or is inconsistent with the accepted standards of the American system of free competitive enterprise.<sup>1</sup>

The above partial list of stipulations are consistent with the fundamental requirements for all government loans: (1) Financing from private, commercial sources must not be available on reasonable terms; (2) there must be reasonable assurance of repayment; and (3) the loan must be in the public interest.<sup>2</sup>

In general, credit requirements do not differ in content and purpose from requirements of private lending institutions. The applicant must display good character, an ability to successfully manage the intended or current business, and indicate, by examination of previous past earnings records and the future outlook of the business, an ability to repay the loan. If the

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<sup>1</sup>Ibid., pp. 6-7.

<sup>2</sup>Small Business Administration, Loan Sources in the Federal Government, p. 1.





loan is for a new business the applicant must be able to provide one-half the required funds from his own assets.<sup>1</sup>

The general policies concerning loans and loan procedures were formerly determined by the SBA Loan Policy Board. The Board consisted of the following ex-officio members: the Administrator of the SBA as chairman, the Secretary of the Treasury, and the Secretary of Commerce. This board has since been abolished,<sup>2</sup> and the functions of determining loan policy now reside with the SBA Administrator.<sup>3</sup>

The amounts of business loan participation are restricted by statute limiting SBA's guarantee of a loan at \$350,000, or 90 per cent of the loan, whichever is less, a maximum of \$150,000 for an immediate participation loan, and a ceiling of \$100,000 for a direct loan. A participation loan is defined as a loan made jointly by the SBA and a private lending institution. A direct loan is one made entirely by the SBA.<sup>4</sup> The maturity term of regular business loans is normally ten years. The usual exceptions are six years for a working capital loan, and up to fifteen years for a construction loan. Interest rates on regular business loans may not exceed five and one-half per cent. On guaranteed loans, and the bank's portion of a

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<sup>1</sup>Small Business Administration, SBA Business Loans, p. 4.

<sup>2</sup>The SBA Loan Policy Board was abolished by Reorganization Plan No. 4 of 1965 (30 F. R. 9353).

<sup>3</sup>U. S., Congress, Senate, Select Committee on Small Business, Small Business Act, as Amended, Senate Committee Print (Washington: Government Printing Office, 1967), p. 4.

<sup>4</sup>Ibid., p. 8.



participation loan, the bank sets its own interest rates.

Collateral for a business loan may be any one, or a combination of, the following: (1) a mortgage on land, a building and/or equipment; (2) assignment of warehouse receipts for marketable merchandise; (3) a mortgage or chattels; and (4) guarantees or personal endorsements, and in some instances, assignment of current receivables.<sup>1</sup>

A pledge or mortgage on inventories usually is not acceptable collateral. To be acceptable, the material must be stored in a bonded or otherwise acceptable warehouse.<sup>2</sup>

Loan application is a relatively simplified procedure. An established business need only provide the following forms and records to be considered for a loan by the SBA:

1. A current balance sheet for the firm.
2. An income statement for the previous year and also for the current year up to the date of the current balance sheet.
3. A current personal balance sheet for each major stockholder.
4. A listing of collateral offered.
5. A statement of the exact loan amount requested and the purposes for which the loan will be used.<sup>3</sup>

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<sup>1</sup>Small Business Administration, SBA Business Loans, p. 5.

<sup>2</sup>Ibid., p. 6.

<sup>3</sup>Ibid., p. 8.



New businesses, presenting a greater security risk, are required to include a description of the type of business to be entered, the managerial experience of the prospective management, and a detailed projection of first year earnings. Both established and new businesses must present evidence of the unavailability of private lending institution credit. SBA loans are intended to be a supplement to, and not a replacement for, private credit.<sup>1</sup>

#### Pool Loans

A second type of financial assistance is referred to as a "pool" loan. A "pool" loan is a loan to a corporation formed and capitalized by groups of small business companies for the purpose of purchasing supplies and material common in use to the member companies. These loans may also be obtained for research and development. SBA, either by itself, or in participation with a bank, will lend up to \$250,000 for each company within the pool. The interest rate for the SBA portion of the loan is 5 per cent. The normal maturity limit is ten years, except for construction loans which may be extended up to twenty years.

An interesting side note to this type of loan is the exemption from the antitrust laws of the Federal Trade Commission Act. "Pools" are not considered to be "combinations" within the meaning of the FTC Act. Rather, their formation is encouraged.

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<sup>1</sup>Ibid., pp. 9-10.



Section 7(a)(6) of the Small Business Act authorizes the SBA Administrator to consult with representatives of small business firms for the actual purpose of encouraging the formation of pools.<sup>1</sup>

### Economic Opportunity Loans (EOL)

Economic Opportunity Loans, a third category of lending program, are directed toward assisting low-income or disadvantaged persons who either already own businesses or desire to go into business. This type of loan is particularly directed at reducing long term unemployment, and was formerly administered in cooperation with the Office of Economic Opportunity. Title IV of the Economic Opportunity Act of 1964 gave sole responsibility for this type loan to the SBA.<sup>2</sup> The Economic Opportunity Loan program had been relatively unsuccessful under the Office of Economic Opportunity. The strongest reason for its failure there has been given as poor criteria. Berkeley Burrell, president of the Negro National Business League believes that the OEO was "looking for the impossible man--a person who has (1) management ability, (2) good credit, (3) demonstrated ability to repay, and (4) who is in poverty."<sup>3</sup> Additionally, the applicant's annual income had to be less than \$1,540.<sup>4</sup>

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<sup>1</sup>U. S., Congress, Senate, Select Committee on Small Business, Small Business Act, as Amended, p. 8.

<sup>2</sup>Ibid., p. 29.

<sup>3</sup>"Small Business Loans," New Republic (September 24, 1966), p. 9.

<sup>4</sup>Ibid., p. 10.





The principal considerations in approval of this type loan are character and ability, rather than collateral. The loan may be conditional, by requiring the applicant to attend SBA-sponsored management programs, workshops, and/or counseling sessions. The Economic Opportunity Loans have a maximum limit of \$25,000, and may be obtained for as long as fifteen years. The interest rate is five and one-half per cent. This rate is lowered to four and three-quarters per cent in severely depressed areas.

These loans provide incentive for the would-be entrepreneur who lacks sufficient capital backing, but indicates promise of success. Sidney Shiff, the Executive Director of the New York Small Business Development Center is quoted as saying that "the big problem is to give people the self-confidence to go into business for themselves."<sup>1</sup>

Former SBA Administrator Bernard Boutin ordered his staff to "go out in the ghettos" and find more people who seem to have the potential to run a business.<sup>2</sup>

The 1966 amendments to the Economic Opportunity Act allowed the SBA to expand this program in 1967 to reach the entire nation, Guam, the Virgin Islands, and Puerto Rico. Formerly, the program had been limited to the 44 cities where Small Business Development Centers were established.<sup>3</sup>

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<sup>1</sup>"Helping the Poor to be Boss: SBA's Loans," Time (December 16, 1966), p. 90.

<sup>2</sup>Ibid.

<sup>3</sup>Small Business Administration, Annual Report, 1967 (Washington: Government Printing Office, 1968), p. 12.



Disaster Loans

Another category of financial assistance is the Disaster Loans. These loans are designed to aid victims of disasters and generally fall into four categories: (1) physical damage; (2) natural disasters; (3) product disasters; and (4) displaced business. The law places no limit on the amount of the loan, the amount being determined by the nature of the loss, and being generally restricted to the tangible loss minus any application of insurance settlements or emergency funds obtained from disaster or emergency organizations such as the American Red Cross. The general rate of interest on these loans is set at three per cent and maturity may extend up to thirty years. Collateral is limited to whatever the applicant is able to pledge.

To be eligible for a Physical Damage Loan, the applicant must be located in an area which the President has declared to be a major disaster area because of storms, flood, earthquake or similar occurrence. The applicant must have suffered substantial economic injury. In this particular area of financial assistance the SBA works closely with the American Red Cross. Included in the list of eligibles for this type aid are non-profit organizations, such as churches. Funds may be used to restore a home or business to the condition prior to the occurrence of the disaster and for repair and replacement of furnishings, equipment, fixtures and inventory.

Natural Disaster Loans require that the business be located in an area which either the President or the Secretary of



Agriculture has declared to be a natural disaster area because of drought, excessive rainfall, freezing conditions, or other like circumstances. The disaster must have caused the applicant to lose business by preventing the concern's former customers from normal trade. Eligibility regulations require that the applicant's primary source of income be derived from the farm community. Loan funds may be used for working capital or the payment of financial obligations, except bank loans, which would have been met by the borrower had the disaster not occurred.

In order to be eligible for a Product Disaster Loan, a business must be located in an area for which the Administrator of the Small Business Administration has issued a declaration making disaster loan assistance available because of inability to process or market a product for human consumption due to disease or toxicity from natural or undetermined causes. Distributors of the damaged product located outside the declared area may be eligible for the loans if they can prove substantial economic loss due to the unavailability of the product. The loans are intended to continue or reestablish an injured firm or for use as working capital until the firm is reestablished.

A small firm which is forced to move because of federally aided urban renewal or other construction projects, and which suffers substantial economic injury as a result, becomes eligible for a Displaced Business Loan. Loan funds are intended to help the firm obtain comparable space and reestablish itself. Funds may be used for the purchase of land and buildings, moving



expenses, replacement of machinery and equipment, increased rent, or for working capital. This is the only type of disaster loan in which the interest rate is established yearly according to a statutory formula. The current rate is four and one-fourth per cent.<sup>1</sup>

### Small Business Investment Companies

Another group of revolutionary financial aids to small business were granted under the Small Business Investment Act of 1958 as Titles III, IV, and V, and are called Small Business Investment Companies (SBIC's), Lease Guarantees, and State and Local Development Companies, respectively.

Small Business Investment Companies (SBIC's) are privately owned and operated investment companies licensed by SBA to provide equity capital and long term loans to small firms.<sup>2</sup> The SBIC's are required to operate within SBA regulations, but their transactions with private companies are individual arrangements and have no connection with the SBA.<sup>3</sup> In practice, an SBIC is a licensed private investment company, organized for profit, which makes contractual arrangements with small firms seeking financial assistance. In this respect, an SBIC serves

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<sup>1</sup>Small Business Administration, Small Business Administration. What It Is and What It Does, p. 10.

<sup>2</sup>Small Business Administration, SBIC Financing for Small Business--Money for Growth (Washington: Government Printing Office, 1968), p. 4.

<sup>3</sup>Small Business Administration, Small Business Administration. What It Is and What It Does, p. 11.





principally the same function for the small company that an investment banking house does for large corporations.<sup>1</sup>

Initial capital of the SBIC's comes from private investors, but the individual SBIC may obtain government funds. An SBIC is eligible to borrow \$2.00 for every \$1.00 of private capital up to a maximum of \$7,500,000. An SBIC which has sixty-five per cent of its total funds invested in venture, or equity, capital is eligible to borrow \$2.00 for every \$1.00 private capital up to \$1 million, and \$3.00 for every additional \$1.00 above \$1 million up to a maximum of \$10 million. Interest on these loans is determined at a rate not less than a rate determined by the Secretary of the Treasury, using market yield on U. S. outstanding obligations, plus any additional administrative charges deemed appropriate by SBA. Maturity on these loans runs to a maximum of fifteen years.<sup>2</sup>

The principal owners of SBIC's are small groups of local investors. Additionally, as of 1968, the stock of more than 40 SBIC's was publicly traded, over 80 SBIC's were either totally or partially owned by commercial banks, and a number of SBIC's were subsidiaries of other corporations.<sup>3</sup>

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<sup>1</sup>Hart, Business in a Dynamic Society, p. 171.

<sup>2</sup>Small Business Administration, Key Features of SBA's Principal Lending Programs (Washington: Government Printing Office, 1968), p. 3.

<sup>3</sup>Small Business Administration, SBIC Financing for Small Business--Money for Growth, p. 5.



In order to be eligible to form an SBIC, the prospective organization is required by SBA regulations to have ten or more incorporators and a minimum paid-in capital and surplus of \$300,000. The Small Business Administration is authorized to buy an SBIC's debentures in an amount not to exceed \$150,000. Therefore, only \$150,000 of private capital is required to apply for incorporation as an SBIC. Furthermore, a commercial bank may become a stockholder in an SBIC up to a maximum of one per cent of the bank's capital and surplus.<sup>1</sup>

Small business firms are aided by SBIC's in two different ways--straight loans and equity investments. In some instances the equity investment may be tantamount to actual or potential ownership. SBIC's are in general prohibited from assuming a controlling position of a small firm.<sup>2</sup>

A major portion of the rationale behind an SBIC's willingness to risk capital in small business ventures is the opportunity to participate in the profits of a prosperous business. There are three types of investments utilized for this end by the SBIC's:

1. Loans with Warrants--in return for a loan, the small business issues warrants enabling the SBIC to purchase common stock in the company, usually at a favorable price, during a specified period of time.

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<sup>1</sup>Vernon A. Musselman, Introduction to Modern Business (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1964), p. 96.

<sup>2</sup>Small Business Administration, SBIC Financing for Small Business--Money for Growth, p. 6.



2. Convertible Debentures--the SBIC lends the small firm money and in return receives a debenture. The SBIC then can either accept repayment of the loan or can convert the debenture into an equivalent amount of common stock of the small business.

3. Common Stock--the SBIC purchases common stock from the small firm.<sup>1</sup>

Straight loans are normally obtained from SBIC's in the same manner as any other lending institution, except that collateral requirements are usually less stringent. The interest rate on a loan is determined by negotiation between the firm and the SBIC, and is subject only to state regulation. Criteria for eligibility, i.e., qualification as a "small" business, is the same as for SBA business loans.

One factor leading to the increased number of SBIC's is the provision of certain tax advantages, as provided for in the Technical Amendments Act of 1958. For example, losses incurred on convertible debentures or stock of small business can be treated as ordinary loss deductions rather than capital losses.<sup>2</sup> Additional tax benefits providing encouragement to the formation of SBIC's are:

1. SBIC's are allowed a deduction of 100 per cent of dividends received from a taxable domestic corporation, instead

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<sup>1</sup>Ibid.

<sup>2</sup>Broom and Longenecker, Small Business Management, p. 348.



of the 85 per cent deduction granted other corporate taxpayers.

2. SBIC's are granted relief from the tax on excess accumulations of surplus and may qualify for relief from the tax on personal holding companies.<sup>1</sup>

#### Lease Guarantee Plan

Owing to the difficulty small businessmen were experiencing in obtaining leases in good locations because of the lack of good credit ratings, the SBA's Lease Guarantee plan was instituted.<sup>2</sup> This plan has allowed small businessmen to participate in the development of new shopping centers and industrial parks which were previously closed to them. A lease guarantee is an insurance policy issued to small businessmen, guaranteeing to the landlord that rent payments will be made. The guarantee gives coverage from five to twenty years on a participating basis, and fifteen to twenty years on a direct basis. Insurance is normally provided by private companies, but if private policies are unavailable, SBA will guarantee leases directly. The insured business will prepay the premiums on the policy, which are nonrefundable. In addition, three months' advance rent must be paid, to be held in escrow. This advance rent will be returned to the small businessman at the expiration of the lease, along with four per cent interest, provided there is no default in rent payments. These advance

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<sup>1</sup>Small Business Administration, SBIC (Washington: Government Printing Office, 1968), p. 5.

<sup>2</sup>Small Business Administration, Small Business Administration, What It Is and What It Does, p. 10.





payments may be borrowed from SBA.

### Economic Development Loans

In order to aid the small businessman to expand, modernize, acquire or build facilities, the concept of State and Local Development Companies arose, and are referred to as the 501 and 502 Programs, respectively, after the applicable sections of the Small Business Investment Act. One of the principal aims of the 501 and 502 programs is to raise the economic level of states and communities. This is accomplished by helping them expand established industries and encourage the growth of new ones, thereby increasing markets for their products, and creating jobs and income for the area's populace.<sup>1</sup> Development companies organized under state statutes and designed to assist the growth and development of business concerns are eligible for SBA loan assistance. The 502 program is based on the principle that "each community bears a major responsibility for its own economic growth and health."<sup>2</sup> Consistent with this goal, SBA attempts to aid local development by equipping development companies with the tool for their own economic survival--capital.

The maximum amount a state development company may borrow is equal to the company's total outstanding borrowings from all other sources, and for a local company \$350,000 for each business

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<sup>1</sup>Small Business Administration, 1962 Annual Report to the President and Congress (Washington: Government Printing Office, 1963), p. 34.

<sup>2</sup>Small Business Administration, Self-Improvement--Community Style (Washington: Government Printing Office, 1967), p. 3.



to be assisted. The interest rates and maturity vary from a minimum rate of six and one-half per cent and maximum payback period of twenty years for state companies to a minimum of five per cent interest and twenty-five years maturity for a local organization.

The local development company (LDC) which is the core of the local development company program, must be structured from a minimum of 25 local residents or businessmen.

An LDC is required to raise a certain percentage of the overall project cost. The exact percentage is dependent on the size of the community under consideration. For a community of 5,500 or less citizens the LDC is required to furnish 10 per cent of the total cost. If the population falls between 5,500 but is less than 10,000, the LDC's share is raised to a new minimum of 15 per cent. Communities with population exceeding 10,000 are required to furnish 20 per cent. These minimum percentages are allowed only when they are equal to the maximum available private capital contribution.<sup>1</sup>

If the project to be financed is either located in, or intended to be established in, a "ghetto," "target," or "high unemployment" area, the minimums concerning LDC financial contributions are waived, and an across-the-board 10 per cent minimum is permitted, regardless of the total community population.<sup>2</sup>

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<sup>1</sup>Small Business Administration, 502 Local Development Company Program (Washington: Government Printing Office, 1968), p. 2.

<sup>2</sup>Ibid., p. 3.



The balance of the project cost is available through one of three SBA plans. The first plan is referred to as the Guaranty Plan, and is designed to allow private lending institutions participation in community development through a low risk investment. In this plan, the lending institution lends the remainder of the necessary project funds. SBA will then guarantee up to 90 per cent of the loan or \$350,000, whichever is less. The example given below will illustrate:

#### Example of the Guaranty Plan<sup>1</sup>

The community size is 2,500, the total project cost is \$300,000, and the lending institution is financing the balance of the project cost. SBA is guaranteeing the loan:

Lending institution	\$270,000
LDC	<u>30,000</u>
Total project cost	\$300,000

The lending institution is given a first mortgage position, and SBA guarantees \$24,300 of the loan.

A second avenue of participation is termed the Regular Participation Plan. This plan allows for the lending institution to furnish any portion of the total project cost in an amount greater than 10 per cent, with the SBA providing any balance of the cost. The lending institution and the SBA are given a first mortgage position, with the LDC taking a second position.

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<sup>1</sup>Ibid., pp. 3-4.



### Example of Regular Participation Plan<sup>1</sup>

The community size is 15,000, the total project cost \$400,000, and the lending institution is participating at 25 per cent.

Lending institution	\$80,000
SBA	240,000
LDC	<u>80,000</u>
Total project cost	\$400,000

Third, an LDC may be financed through the remaining plan, the First Mortgage Plan. The private lending institution may take up a position of first mortgage. In order to be allowed the first mortgage, the lending institution must provide minimum funds according to the community size.

A population of 10,000 or less requires a minimum lending institution participation of 20 per cent, a population between 10,000 and 25,000 requires 25 per cent participation, communities between 25,000 and 50,000, 30 per cent, and when the population exceeds 50,000, a minimum of 40 per cent is required.

### Example of First Mortgage Plan<sup>2</sup>

The community size is 26,000, the total project cost is \$500,000.

Lending institution	\$200,000
SBA	200,000
LDC	<u>100,000</u>
Total project cost	\$500,000

<sup>1</sup>Ibid., p. 5.

<sup>2</sup>Ibid., p. 6.





The proceeds of 502 loans can be used only for the purchase of land, plants, and equipment. The money cannot be used for working capital.<sup>1</sup>

### Project OWN

Project OWN, a relatively new program of SBA, is a program whose purpose is "to create new or expand established minority entrepreneurships."<sup>2</sup> Project OWN is looked upon as the answer to four major minority enterprise problems:

1. White ownership of the vast majority of ghetto businesses.
2. Lack of minority capital.
3. Lack of minority experience.
4. Lack of coordinated vehicle for an action program, with heavy private sector participation.<sup>3</sup>

The program is primarily directed toward the "disadvantaged"--the Negro, Mexican-American, and the Indian, among others--and is not solely intended to aid "black capitalism."<sup>4</sup>

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<sup>1</sup>Small Business Administration, Self-Improvement--Community Style, p. 2.

<sup>2</sup>Richard Philbin, Minority Programs Director, Small Business Administration, private interview in Washington, D. C., March 10, 1969.

<sup>3</sup>Small Business Administration, Project OWN Fact Sheet, unpublished, undated, mimeographed, p. 1.

<sup>4</sup>Terry Scanlon, Project OWN Industry Relations Officer, Small Business Administration, private interview in Washington, D. C., March 14, 1969.



Project OWN involves the interfacing of four major institutions: the Federal Government, the banking community, business and industry, and local community groups and governments.

The Federal Government is represented by the SBA. The Administration's principal responsibilities lie in the guaranteeing of loans and overall coordination of the program's activities. Other governmental agencies, including the Labor Department, Commerce Department, and the Office of Economic Opportunity, have committed available resources to the program and have assigned liaison officers to the SBA.<sup>1</sup> Together, they have developed the overall plan for the project, and have decided upon twenty to thirty different types of enterprises to be included in the project. The businesses selected are predominantly of the franchise-type operation.

SBA's financial programs are the principal vehicles for accomplishment of the objective of the project. The fundamental means of financing lies in the guaranteed loan program, with the Local Development Program and the Small Business Investment Companies providing supporting roles. Additionally, SBA management programs, as described in Chapter V, aid in preparing the would-be minority entrepreneur to assume a Project OWN firm.

The banking community is tasked to increase its commitment of capital to minority applicants, and to share in the

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<sup>1</sup>Small Business Administration, press release dated August 13, 1968, p. 2.



decisions as to the type business which should be financed as a good risk in a particular area. To these ends, the Urban Affairs Committee of the American Banking Association has given its support, and has assigned a full time director to head up the participation of the banking segment.<sup>1</sup>

The business and industrial contribution lies primarily in the provision of good market analysis. Examination of existing franchises and other businesses to determine their potential for success will increase the probability for a successful venture, and, it is hoped, will stem the wave of infant business mortalities. Businesses are also expected to participate in the management guidance and counseling areas.

Since the concept of OWN is primarily based on decentralization, the local community and local government's area of participation becomes greatly extended. Their responsibilities will be principally identification of prospective managers and owners and the fostering of local attempts to develop business sites and industrial areas. The National Business League, Urban League, and Urban Coalition, to name a few, are examples of local agents for Project OWN.

SBA, on the national level, is organized for Project OWN with four offices, each under an Associate Administrator. These offices are termed, Banking Community, National and Local

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<sup>1</sup>Ibid., p. 3.



Organizations, Operations, and Industrial Relations. It is the mission of these four offices to coordinate "the bringing together of the money, the management, and the man."<sup>1</sup>

SBA's financial programs are widely diversified, and their scope is intended to cover practically any facet of the small businessman's financial problems. As can be seen from the brief examination presented above of requirements for participation by small business, every effort to expand the entitlements to as large a population as possible has been made.

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<sup>1</sup>Richard Philbin, personal interview, March 10, 1969.





## CHAPTER V

### SMALL BUSINESS ADMINISTRATION MANAGEMENT PROGRAMS

Numerous studies and reports have named inadequate and incompetent managerial procedures, personnel, and policies as one of small business's major problems, and a large contributor to the overall fatality rate among smaller firms. "Mismanagement is undoubtedly a predominant cause of mortalities," was one of several conclusions adopted by the Senate Committee on Small Business in a study done on the availability of management counseling to small firms.<sup>1</sup>

If there is any formula for business success, the ingredients consist largely of the ability to evaluate objectively, to plan carefully, and to be prepared emotionally to persist long enough to overcome temporary setbacks until the business reaches its full potential.<sup>2</sup>

The above quotation of the Chamber of Commerce in its publication, Small Business: Its Role and Its Problems, adequately describes the management function and its relative importance in establishing and maintaining a stable firm.

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<sup>1</sup>U. S., Congress, Senate, Select Committee on Small Business, Factors Influencing Small Business Failures, p. 30.

<sup>2</sup>Chamber of Commerce of the United States, Small Business: Its Role and Its Problems, p. 19.



Small business requires the same total management requirements as big business, but the smaller entrepreneur is expected to be a better all-around manager than his giant corporation counterparts. Historically, small business operations have displayed an unevenness in the quality of management within the technical, financial, sales, and accounting operations. Due to the level of increased competition today, the small business manager has had new managerial demands thrust upon him. He is required to possess highly developed skills of a wide variety. Small business is dependent upon its ability to specialize in a big corporation atmosphere. In order to exploit the advantages of specialization, the small firm manager often requires more resourceful management knowledge, skills and methods than the large business manager.<sup>1</sup>

The small firm manager cannot afford staff specialists. Therefore, he must be versed in many different aspects of management including: production, financial analysis, planning and control, sales, and advertising to mention just a few.

In a report of the analysis of managerial deficiencies prepared by the University of Iowa, three very important conclusions were made:

1. Successful managers can best be distinguished from unsuccessful ones by the way they approach decisionmaking. The successful managers carefully consider alternatives. Different potential courses of action are examined with care, all considerations are weighed, and yet other alternatives are sought.

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<sup>1</sup>Hollander, The Future of Small Business, p. 92.



2. No significant differences in educational and experience background were found to exist between the owner-managers of the out-of-business firms and the owner-managers of comparable "going" concerns.

3. The owner-managers of out-of-business firms generally relied less on outside management and technical assistance than do their counterparts who were still in business.<sup>1</sup>

The above three conclusions, taken together, indicate that the small firm manager must be taught the necessary procedures for intelligent decision-making. And success indicates that this education is best received from outside assistance sources.

The small businessman, however, either does not always seek available outside assistance or if he does, it is often too late, and his managerial problems are out of hand. Other studies<sup>2</sup> on the managerial problems of small business indicate that the small businessman is oftentimes afraid of the cost of outside professional assistance, that he is unable to recognize managerial problems until the situation is serious, and that by asking for advice he is admitting a personal inadequacy.

To aid in overcoming managerial assistance problems, the SBA offers a varied program of educational and counseling services. Coupled with these services are varied training

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<sup>1</sup>University of Iowa, An Analysis of Environmental and Managerial Factors in the Success or Failure of Small Manufacturing Companies (Iowa City, Iowa: University of Iowa Press, 1963), p. 111.

<sup>2</sup>Small Business Administration, Management Counseling of Small Business (Washington: Government Printing Office, 1967), p. 2; also, Small Business Administration, Outside Management Counsel for Small Business (Washington: Government Printing Office, 1967), pp. 1-2.



programs designed to produce qualified small firm managers. It is to these specific educational and corrective vehicles that we now turn our attention.

### Counseling at the Local Level (CALL)

The Counseling at the Local Level (CALL) program is designed to provide individual counseling and informational services to all small businesses, regardless of their location. The CALL program extends itself to all areas served by SBA regional offices, and concentrates on servicing those areas which are particularly remote in their location.

The managerial services offered through the CALL program are the same as are available through any SBA regional office. CALL can be thought of as an extension of the individual regional offices. CALL services those areas of each region where the management public does not have easy access to the regional office. It is designed to extend SBA counseling and resources to the distant, the disadvantaged, and the managers who would have trouble getting to a regional office with their problems.<sup>1</sup>

Additionally, CALL takes an active role in seeking out management problems through regular visits to remote communities. During these field trips, CALL representatives visit with small businessmen to inquire about problem areas and to insure that the small businessman is made aware of all SBA programs.

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<sup>1</sup>Small Business Administration, Small Business Administration, What It Is, What It Does, p. 13.





Service Corps of Retired Executives (SCORE)

The Service Corps of Retired Executives (SCORE) program is comprised of 190 branch offices, and since its inception in 1964, the number of counselors nation-wide has grown to 3,300.<sup>1</sup> Its purpose is simple: to help small business stay strong, progressive and keep up with the latest technology.<sup>2</sup> SCORE is specifically designed to help the small businessman who normally cannot afford a professional consultant.<sup>3</sup>

SCORE is made up of seasoned successful men including retailers, production analysts, office managers, lawyers, engineers, accountants, economists, bankers, controllers, and many others. These individuals are, as the name of the program indicates, retired executives who display an altruistic attitude toward the encouragement and assistance of small business. These men appreciate the importance of small business to the free enterprise economy.<sup>4</sup>

SCORE is ready to offer assistance to any small businessman. The applicant need not be in financial or managerial

<sup>1</sup>Small Business Administration, New Ideas? Ask SCORE (Washington: Government Printing Office, 1968), p. 2.

<sup>2</sup>Small Business Administration, SCORE (Washington: Government Printing Office, 1968), p. 1.

<sup>3</sup>Small Business Administration, Management and Technical Assistance (Washington: Government Printing Office, 1968), p. 3.

<sup>4</sup>Small Business Administration, New Ideas? Ask SCORE, p. 2.



trouble. Most applicants are those businesses with 25 or less employees. The SBA has no eligibility requirements beyond the qualification as a small business. The business being aided does not have to be receiving financial aid in the form of a loan to qualify. In fact, there is not even a requirement that the applicant be in business yet. SCORE experts are also organized to aid an aspiring entrepreneur in planning and organizing a prospective business venture. One can readily realize the value of this "before-the-fact" approach in helping to stem the tide of first year small firm fatalities.

The services of SCORE personnel are absolutely free to the small businessman. The counselor's time is without a fee. The only monetary cost to the applicant is reimbursement to the SCORE counselor for his travel expenses.

To apply for this service, a small businessman need only contact one of the SBA's regional offices. Application must be made on a formal application. SBA field offices will then process the application and match the applicant's requirements with the available talent located at SCORE chapters. SBA will then arrange for contact between the counselor and the applicant. Further arrangements will be conducted directly between the SCORE volunteer and the applicant.

Association and Industry Management  
Services (AIMS)

The Association and Industry Management Services (AIMS) program is an effort to bring managerial assistance to small business through established trade channels. In this program, the



SBA cooperates with and inspires trade associations, large manufacturers, wholesalers, retailers, and other organizations with sufficient managerial talent and experience, to assist their small business members, customers and suppliers in improving their present management structures and practices, and to encourage the use of more profitable policies.<sup>1</sup>

The rationale behind the participation of big business in the AIMS program is that large business is dependent on small concerns in a surprisingly large number of cases. By aiding the small firm suppliers and customers, big business is also helping to preserve and protect a very important segment of their own business world. The interdependence of small and large business dictates an atmosphere of cooperation between and among these firms. As smaller businessmen improve and grow stronger, failures decrease, profits increase, and the entire business community benefits.<sup>2</sup>

SBA's role in the AIMS program consists of assisting the association or large business in the setting up of their management improvement course or program. Examples of program areas are: record-keeping services, advertising, sales, personnel assistance, financial advice, and store location and layout, just to mention a few. SBA's only criteria for the program is that it

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<sup>1</sup>Small Business Administration, Association and Industry Management Service for Small Business (Washington: Government Printing Office, 1968), p. 1.

<sup>2</sup>Ibid., p. 4.



be tailored to the needs of the small businessman.<sup>1</sup>

In addition to personnel assistance in the drafting and formulation of the programs, the SBA has prepared a manual titled "Suggested Management Guides." This publication offers guides for a management development program. The publication is available for sale by the Superintendent of Documents, Washington, D. C., and at U. S. Department of Commerce Field Offices throughout the country.

#### Administrative Management Courses

One of the most active and most important programs within SBA for introducing small businessmen to up-to-date management techniques is the Administrative Management Course Program.

This program is concerned with those aspects of management which deal with major policies and objectives of a business, as opposed to the operational management aspects of a concern. The SBA is aware that the average small business owner or manager is usually abreast of everyday operating policies and schedules, but very often these managers are not able to go beyond the operational phase of the business and think or do much about administrative practices.<sup>2</sup>

The program is conducted by SBA, in conjunction with educational institutions, Distributive Education Programs, and

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<sup>1</sup>Ibid.

<sup>2</sup>Small Business Administration, An Administrative Management Course for Owners of Smaller Businesses (Washington: Government Printing Office, 1968), p. 1.





professional and business organizations. The courses offered cover the fundamental principles of management, specifically, planning, organizing, staffing, directing, and controlling.<sup>1</sup>

The course is conducted normally one evening a week, for 8 to 10 weeks. Each session is usually between 2-3 hours in duration. To increase individual attention, the educational institution conducting the sessions ordinarily limits the enrollment to 25 to 30 participants. The curriculum conducted consists of two types of courses. The first is an overview type of course covering broad subject areas of administrative management.

The second course is of an advanced nature, and is more specific in composition, dealing with individual management areas, such as advertising, planning, controlling, taxation, or financing.

The core of the program curriculums is the Management Course Presentations. These presentations are a series of discussions on various management subjects, and are designed to be used as teaching vehicles in the Administrative Management Course Program. The series consists of fifteen volumes, as listed in Table 3. Each volume consists of a teaching outline, or lesson plan, a text, visual aids, handout materials, case study material, homework assignments, and a bibliography.

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<sup>1</sup>U. S., Congress, Senate, Select Committee on Small Business, Factors Influencing Small Business Failures, p. 19.



TABLE 3

## MANAGEMENT COURSE PRESENTATIONS

Topic No.	Title	Catalog Number
1	Success and Failure Factors	SBA 1.24.1
2	Records and Credit in Profitable Management	SBA 1.24.2
3	Managing to Sell	SBA 1.24.3
4	The Why and What of Bookkeeping	SBA 1.24.4
5	Financing Long and Short Term Needs	SBA 1.24.5
6	Personnel Management	SBA 1.24.6
7	Aspects of Sales Promotion	SBA 1.24.7
8	Taxation: A Key Factor in Business Decisions	SBA 1.24.8
9	Communication and Control	SBA 1.24.9
10	Human Factors in Small Business	SBA 1.24.10
11	Choosing a Form of Business Organization	SBA 1.24.11
12	Safeguarding Your Business and Management Succession	SBA 1.24.12
13	Small Business Location and Layout	SBA 1.24.13
14	Effective Advertising	SBA 1.24.14
15	Sources of Assistance and Information	SBA 1.24.15

Source: Small Business Administration.

The Management Course Presentations are a result of a recommendation of a committee on management education. The committee consisted of members of the SBA and the Distributive Education Division of the American Vocational Association. The committee had been formed to study the effectiveness of management training for small firm management.<sup>1</sup>

<sup>1</sup>Small Business Administration, Management Course Presentations (Washington: Government Printing Office, 1967), p. 2.



Eligibility requirements, fees, and course dates and location for the Administrative Management Course are normally set forth by the sponsoring educational institution. The SBA maintains a list of sponsoring institutions for interested personnel.

### Management Publications

The management publications program is one of the best known and most far-reaching of SBA's programs.<sup>1</sup> These publications are designed to create efficient management by discussing problems of common interest to small businesses, while at the same time supplementing textual material with facts and figures readily understandable by even the most non-technical mind.<sup>2</sup> The publications are intended for retailers, wholesalers, manufacturers, and service concerns, and apply to the individual already established in business, as well as the prospective businessman.

The material contained in the publications is original, and is written by many experts in the various fields. The preponderance of material is contributed by the authors free of charge, as a public service.<sup>3</sup>

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<sup>1</sup>U. S., Congress, Senate, Select Committee on Small Business, Factors Influencing Small Business Failures, p. 18.

<sup>2</sup>Small Business Administration, Management and Technical Assistance, p. 9.

<sup>3</sup>Ibid.



The material consists of cost-free leaflets and for-sale booklets. The free materials consist of:

1. Management Aids for Small Manufacturers.--These publications deal with functional problems of small business management, and contain facts on significant developments such as processes, equipment, and materials.
2. Small Marketers Aids complement the Management Aids series, and are designed for the retail, wholesale, and service firm executives. Representative titles are, "Correcting the Causes of Marketing Waste," "Finding and Hiring the Right Employees," "Building Good Customer Relations," and "Analyze Your Records to Reduce Costs," to name a few.
3. Technical Aids for Small Manufacturers are publications directed toward the technical men in small business establishments, who may or may not be the same individuals as top management. These publications discuss technological processes available to increase profits by reducing costs or by making a product more marketable through improvement. The latest technological breakthroughs are discussed and presented as well as the proper methods of utilization of existing technology. These are particularly valuable, since the average small firm does not usually have the available funds or personnel for an extensive research and development program. Typical titles of Technical Aids are, "Uses of Ceramic Coated Metals in Small Plants," "Cut Corners with Conveyors," "PERT/CPM Management System





for the Small Subcontractor," and "Welding and Flame-Cutting Processes and Practices."

4. Small Business Bibliographies provide reference sources for managers and owners, and are designed for specific types of businesses or functions of management. These aids were developed as a result of deficiencies revealed by SBA's counseling programs, and their largest application is in counseling.<sup>1</sup>

5. Management Research Summaries are one to four page pamphlets summarizing the results of reports published under the SBA grant research program. The subjects covered fall into the broad categories of managing, financing, and operating a small business firm.<sup>2</sup> Examples of titles are, "Air Transportation in New Hampshire," "Small Business Success and Failure Cases," "Small Business Use of Trade Association Programs," and "Small Business Opportunities in a Redevelopment Area."

Publications which are for sale by the SBA are:

1. Aids Annuals are an annual publishing of all the individual issues of each of the three Aids series--Management, Small Marketers, and Technical. Their purpose is to provide management of small firms with a permanent file of reference material from the Aids series.

2. Small Business Management Series are comprehensive compendia of small business problems designed to educate the small

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<sup>1</sup>Ibid., pp. 9-10.

<sup>2</sup>Ibid.



firm owner or manager in the intricacies of successful management. Publications may take the form of analyses, case studies, or step-by-step procedures covering specific management areas. Typical titles are, "A Handbook of Small Business Finance," "Ratio Analysis for Small Business," "Profitable Small Plant Layout," and "Small Store Planning for Growth."

3. Starting and Managing Series discuss the problems and procedures of starting and managing specific types of small firms. The first volume in the series, "Starting and Managing A Small Business of Your Own," is a general guide to entering business and is succeeded by pamphlets on specific businesses such as, "Starting and Managing a Small Automatic Vending Business," "Starting and Managing a Swap Shop or Consignment Sale Shop," and "Starting and Managing a Service Station."

4. Small Business Research Series are volumes written on the findings of academic or professional research projects in the area of small business management. These publications are directed to the person serving small business instead of the small business owner or manager.<sup>1</sup> Representative titles are, "The First Two Years: Problems of Small Firm Growth and Survival," and "Personality and Success: An Evaluation of Personal Characteristics of Successful Small Business Managers."

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<sup>1</sup>Ibid., p. 12.



Conferences, Workshops, and Clinics

Conferences are normally of one-day duration, and are intended to aid managers of small firms in keeping up-to-date with current business practices and procedures, and new changes thereto. Conferences cover such topics as working capital, business forecasting, exporting, taxing, and a wide range of other fields.

Techniques used in the conferences include the employment of guest speakers, panel discussions, work sessions, and question and answer periods. Co-sponsors of the conferences are often banks, chambers of commerce, civic groups, and trade associations.

Workshops are one-day indoctrination sessions for prospective business owners of small businesses. The workshop is intended primarily to make the prospective businessman aware of the need for sufficient preparation, and to encourage him to wait until he achieves the necessary state of readiness for entry. It is felt by SBA that careful planning at this time will help these neophytes avoid costly and unnecessary mistakes.<sup>1</sup>

The workshops are designed to teach basic principles which can be applied to all kinds of business. Subjects covered include: financial requirements, selecting a location, business organization, taxes and business regulations, and management requirements.<sup>2</sup> Additionally, the workshop will help the

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<sup>1</sup>Small Business Administration, SBA Workshops for Prospective Owners (Washington: Government Printing Office, 1967), p. 2.

<sup>2</sup>Ibid., pp. 3-4.



prospective owner to learn the personality requirements of a good owner, and to assess himself in the light of these requirements.

Problem clinics consist of from five to fifteen businessmen and a moderator. The clinic is conducted in a forum/panel discussion atmosphere, and is designed to aid businessmen in solving their problems by bringing together owners and managers with common problems and interests. In the clinic method, each businessman benefits from the knowledge and experience of the other attendees.

#### Foreign Trade

SBA is currently working closely with the U. S. Department of Commerce, among other governmental agencies, to develop and increase small business participation in export trade by giving information and assistance concerning export opportunities.<sup>1</sup>

The principal means used in this program to encourage trade are conferences and seminars co-sponsored by SBA and the Department of Commerce. In these assemblies, trade experts of both industry and government give the small businessman the benefits of their experience and knowledge in the field of foreign trade.

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<sup>1</sup>Small Business Administration, Management and Technical Assistance, p. 4. See also, Small Business Administration, SBA, What It Is, What It Does, p. 15.





Technology Utilization Program

SBA's Technology Utilization Program is intended to aid the small manufacturer in keeping abreast of new technological innovations, and to motivate him to implement new advances, processes, techniques and materials.<sup>1</sup>

By the use of conferences, seminars, and publications on new advances in the scientific and engineering fields, the Program makes an effort to expose small business to the wealth of information on technological advances created by the government research and development programs.

The information is gleaned from the results of studies by the Department of Defense (DOD), National Aeronautics and Space Administration (NASA), the Atomic Energy Commission (AEC), the Department of Agriculture, the Department of Labor, the Department of the Interior, and the Department of Health, Education, and Welfare. Publications on Selected Advances in various fields are published by SBA. The publications set forth in detail the new technology and innovation in the hopes that the information might prove useful to small business. The governmental agencies responsible for the research and development phase of a new process or innovation are encouraged by the SBA to search for possible business applications of their findings.

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<sup>1</sup>Small Business Administration, Management and Technical Assistance, p. 13.



The management assistance programs offered by the SBA are directed to owners and managers of all types of business concerns. There is a program for a prospective small businessman, a stable one, or a faltering one. The variety of assistance offered is great, and the cost to the applicant is, in most cases, minimal. The management assistance programs are constantly in the process of being up-dated, and in this fact lies one of their greatest assets, for the small businessman who is behind the times is oftentimes the same man who is in trouble.



## CHAPTER VI

### PROCUREMENT ASSISTANCE PROGRAMS

The SBA's contribution to aiding small business in obtaining procurement contracts is centered on help in obtaining government contracts and subcontracts. The market for government purchases is wide and varied. Uncle Sam is in the market for just about any commodity or service produced or offered by small business firms. The Small Business Act itself expounds the intent of the Federal Government in regard to aiding small business in obtaining its fair share of the government contracts offered:

It is the declared policy of the Congress that the Government should aid, counsel, assist and protect . . . the interests of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts (including but not limited to contracts or subcontracts for maintenance, repair, and construction) be placed with small business enterprises . . . to maintain and strengthen the overall economy of the Nation.<sup>1</sup>

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<sup>1</sup>Small Business Act of 1958, as Amended, quoted in Small Business Administration, How Small Business Can Obtain Government Contracts and Subcontracts (Washington: Government Printing Office, 1966), p. 1.



The Federal Government apparently realizes the fact that small businessmen do indeed make a large contribution to the economic and technological growth of our economy, and should share equally in the performance of government work. As an aging example, the Wright Brothers, in 1909, outbid forty-one other small businessmen to deliver the world's first successful flying machine under contract to the government. For a price of \$30,000, a whole new area of transportation came into being.<sup>1</sup>

### Government Contracts

The Federal Government purchases its needed materials and services in one of two ways: either by (1) formal advertising, or (2) by negotiation. When advertising for bids, the appropriate purchasing office sends bid invitations to companies listed on their bidder list. This bidding list is a compilation of business establishments who have notified the buying office of their desire to bid on a particular purchase. In addition, each firm desiring to be placed on a bidder's list must supply information confirming their ability to fulfill government contracts.

Bidding companies then submit sealed bids, and at a designated time and place, all bids are read aloud. The contract is then awarded to the bidder whose bid meets these criteria: (1) conforms to the requirements as set forth in the invitation to bid, and (2) is considered the most advantageous to the

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<sup>1</sup>Small Business Administration, Selling to the U. S. Government (Washington: Government Printing Office, 1968), p. i.





government in terms of price, delivery and other factors.<sup>1</sup>

When purchasing by negotiation, the buying agency purchases without the process of formal advertising. In using this method of procurement, the Federal Government again makes use of its bidders list. This is a more active form of obtaining bids, for the buying agency goes out and asks for price quotations from pre-selected suppliers. Contracts by negotiation more often than not involve sophisticated technology beyond the scope of most small businesses. Examples are contracts for atomic energy systems, missile systems, aircraft, and weapons systems.<sup>2</sup>

It can be seen from the discussion above that the prime element to success in obtaining government contracts is for a small businessman to insure that his firm is among those listed on the bidders list. With the disestablishment of the Small Defense Plants Administration, the task of aiding small business to obtain its fair share of the government procurement contracts was inherited by the Small Business Administration.

SBA helps the small businessman by informing him as to which government agencies deal with the particular commodities he has to offer. The field offices of SBA will provide, upon request, the names and addresses of military customers. Government agencies which normally purchase items or services supplied by a small business work closely with the SBA in keeping

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<sup>1</sup>Ibid., p. 2.

<sup>2</sup>Ibid., p. 3.



a ready reference of small firm suppliers.<sup>1</sup>

When inquiring as to the location and names of government buyers, the firm is required to present to SBA information concerning its principal line of products, and other by-products it can produce. SBA will then review the information, and cross-reference it to the list of procurement offices and the products they normally require. The results will then be forwarded to the requesting firm. A second source of information concerning available government procurement offices is the SBA's publication, U. S. Government Purchasing and Sales Directory. This document is a guide to the government's purchasing and sales activities. Included are listings of products and services procured by the government, and the appropriate purchasing agencies which deal with each class of commodities.<sup>2</sup>

The next step for the small businessman after obtaining the names of the appropriate purchasing agencies for their products and/or services is to determine the necessary requirements to get certified for a bidders list. Each item, product, and service procured by government purchasing agencies must meet a set of specifications designed for each specific product. Items offered by small business firms must meet these

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<sup>1</sup>Small Business Administration, How Small Business Can Obtain Government Contracts, p. 2.

<sup>2</sup>Small Business Administration, Selling to the U. S. Government, pp. 3-4.



specifications in order for the firm to be added to the bidders list. Interpretation of specifications is one service offered by the SBA to the small firm.

SBA also offers a very useful pamphlet entitled, Selling to the U. S. Government, which sets forth in detail the methods and procedures of government procurement.

Other forms of prime contract assistance to small firms include the following:

1. Assist small firms with their problems at purchasing installations.
2. Make periodic reviews of procurement installations' purchasing procedures as they apply to small business.
3. Recommend that appropriate sole source procurements be made competitive, and that portions of large planned procurement be broken down and purchased directly to permit small firm competition.
4. Locate small business sources for new competitive procurements where small business competition has been inadequate.
5. Provide assistance on contract administration problems.
6. Counsel firms on selling to the Government.
7. Recommend that restrictive specifications, bidding clauses and unreasonable delivery schedules be changed to permit small business competition.<sup>1</sup>

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<sup>1</sup>Small Business Administration, 1967 Annual Report, p. 17.



As a result of the above aids in prime contract assistance, most DSA contracts go to small business firms.<sup>1</sup>

### "Set-Aside" Program

The "Set-Aside" Program is a program, backed by law and Department of Defense regulations, which provides that the major government purchasing agencies voluntarily "set aside" contracts, or portions of contracts for small business. Additionally, SBA autments government staffs with its own procurement representatives. These representatives recommend additional "set-aside" contracts, provide small business sources to contracting officers, and assist small firms with contracting problems.<sup>2</sup>

Purchasing officers of the buying offices constantly review proposed purchases to determine which ones can be "set-aside" exclusively for small business. One very important criteria for determining "set-aside" contracts is whether or not a sufficient number of small businesses will be able to bid in order to provide the government with a satisfactory price. Once a "set-aside" is made on a contract, only small firms may bid on it.<sup>3</sup>

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<sup>1</sup>U. S., Department of Defense, How to do Business with the Defense Supply Agency (Washington: Government Printing Office, 1966), p. 8.

<sup>2</sup>Small Business Administration, Small Business Administration, What It Is, What It Does, p. 18.

<sup>3</sup>Small Business Administration, How Small Business Can Obtain Government Contracts, p. 2.





Those contracts not "set-aside" by government purchasing officials are subject to review by SBA representatives. SBA may request a "set-aside" if they are able to show that there is sufficient small business competition in the area concerned. The SBA must obtain the approval of the purchasing agency before making a "set-aside." The SBA representative, if refused on a "set-aside" attempt has the right of appeal to the agency or department head.<sup>1</sup>

SBA representatives may also request "set-asides" on portions of proposed purchases. The rationale behind these is that this type of action allows small firms to participate on a competitive bid basis in a prime contract which would be too large for the individual small business. SBA representatives also attempt to have large purchases broken down into components which smaller firms could handle on a competitive basis. The purchasing agency is then requested to purchase these components separately, and a portion of the purchases be "set-aside" for small business.<sup>2</sup>

SBA officials constantly monitor the "Set-Aside" Program and review procedures and their results. If it appears that a policy or procedure is in need of updating, SBA drafts and submits recommended changes and improvements to the department or agency controlling the purchasing activity.

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<sup>1</sup>Small Business Administration, Selling to the U. S. Government, p. 10.

<sup>2</sup>Ibid., p. 11.



The "Set-Aside" Program was temporarily discontinued in 1965, but was reinstated in November of 1967. This action was a direct result of a report by the "Steering Committee on Small Business Set-Aside Program," composed of representatives from the Bureau of the Budget, the Department of Defense, General Services Administration, National Aeronautics and Space Administration, Atomic Energy Commission, and the Small Business Administration.

#### Certificates of Competency (COC's)

If a small business is the low bidder on a government contract, and its ability to perform the contract is questioned by the contracting officer, the firm may request from SBA a Certificate of Competency (COC).

By law, the SBA is authorized to certify that a small business is financially stable and has sufficient productive capacity to fulfill the terms of a government contract. The certification can take the form of a telegram or letter, and is directed to the government purchasing officer responsible for awarding the contract.<sup>1</sup> Certification applies only to the specific contract for which it is issued.<sup>2</sup> The purchasing officer must accept SBA's Certificate of Competency as conclusive.

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<sup>1</sup>Ibid., p. 13.

<sup>2</sup>Small Business Administration, How Small Business Can Obtain Government Contracts, p. 5.



Certificates of Competency are issued by the SBA under the following conditions:

1. The small firm in question has submitted the lowest responsive bid on an advertised purchase or has submitted a proposal on a negotiated purchase that is within price negotiation range.

2. The government official responsible for making the purchase does not believe the bidder is able to perform the particular contract, either for financial or productive reasons, or both.

3. A survey by SBA's financial and production specialists convinced the agency that the firm is capable of performing the contract satisfactorily.<sup>1</sup>

Whenever a contract is awarded due to the issuance of a Certificate of Competency, SBA follows-up continually during the period of the contract, ready to lend assistance wherever and whenever it may be needed.

Request for action leading to issuance of a Certificate of Competency originates within the government agency offering the contract. The rejected small business bidder must initiate the application via the procurement agency. Firms may not apply for a COC at the time of the submission of bids or when negotiations begin on forthcoming contracts, since it is not known

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<sup>1</sup>Small Business Administration, Selling to the U. S. Government, p. 14.



beforehand what the outcome of the bidding will be.<sup>1</sup>

### Subcontracting

The SBA's efforts to increase the volume of contract awards to small business consists of not only assistance in securing prime contracts, but also includes subcontracting opportunities. The area of subcontracting is particularly important because in most cases it is the only way for small businesses to participate.<sup>2</sup>

SBA works closely with the Department of Defense, the General Services Administration, NASA, and the Atomic Energy Commission, among others, to encourage large government prime contractors and subcontractors to increase their awards to small businesses. The principal vehicle to achieve this is inclusion in basic contracts of specific provisions designed to increase small business awards.<sup>3</sup>

SBA's role in the subcontracting program is one most accurately described as a "go-between." SBA maintains liaison with over 100 of the Federal Government's largest prime contractors.<sup>4</sup> When a prime contractor is in need of small firm

<sup>1</sup>Small Business Administration, Certificates of Competency (Washington: Government Printing Office, 1968), p. 1.

<sup>2</sup>Small Business Administration, Selling to the U. S. Government, p. 12.

<sup>3</sup>Small Business Administration, Small Business Administration, What It Is and What It Does, p. 19; and Small Business Administration, How Small Business Can Obtain Government Contracts, p. 4.

<sup>4</sup>Small Business Administration, Selling to the U. S. Government, p. 12.





subcontractors, or when small business is searching for large contractors with whom to subcontract, SBA steps in and marries the two parties.

### Facilities Inventory

Facilities Inventory refers to a nationwide listing of the production facilities of small firms. This procedure requires action on the part of each small business to list its productive facilities with the SBA. This information is valuable in determining whether there is sufficient small business productive capacity to justify set-asides. This listing is also valuable as a reference file when seeking either prime contract or subcontract work.<sup>1</sup>

### Surplus Property

On the buying side of government procurement the SBA aids small business firms to get their fair share of surplus real and personal property offered for sale by the U. S. Government. The SBA notifies small businesses when and where surplus property sales are being held. The property sold might include machine tools, material handling equipment, critical materials released from stockpiles, and even goes so far as to include forest products.<sup>2</sup>

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<sup>1</sup>Small Business Administration, How Small Business Can Obtain Government Contracts, p. 3.

<sup>2</sup>Small Business Administration, Selling to the U. S. Government, p. 9.



The purpose of the program is for SBA to insure that a fair share of government-owned surplus property is made available to small business.<sup>1</sup>

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<sup>1</sup>Ibid., p. 15.



## CHAPTER VII

### ORGANIZATIONAL FRAMEWORK

The basic organizational structure of the SBA consists of two segments, the Washington Office and the Field Offices. The first of these, the Washington Office, is the central coordinating activity for the work of the Field Offices. The Washington Office concerns itself principally with overall planning for the Administration, and is the chief policy-making unit for the SBA.

Chapter VII will portray the basic organization of both the Washington and the Field Offices. Functional descriptions<sup>1</sup> of the more important subdivisions of each office will be offered, but will necessarily be limited to those units directly related to the material already presented in this paper. It is not by design that the remainder of the units and sub-units which complete the framework of the SBA are omitted. Rather, it is a matter of space limitation. The units omitted in the functional

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<sup>1</sup>All functional statements contained in Chapter VII are extracted from the Small Business Administration, Organizational Structure, Small Business Administration (Washington: Government Printing Office, 1966).



descriptions will be presented in the illustrative charts of the organizational structure so the reader may view the SBA in its totality. Maps depicting the location of SBA field offices and the geographical boundaries of the SBA areas will be found in the Appendix.

### Washington Office

The Washington Office is headed by the Office of the Administrator. The Administrator is appointed to his office by the President of the United States for an indefinite period. Like all political appointments, the appointment of the Administrator by the President is subject to approval by the Senate.

### The Administrator

The Administrator is responsible to the President and Congress for the direction, authority, and control of the Small Business Administration. He is the top policy-maker in the organization, and as such, determines and approves all matters affecting the agency's program policies. It is the Administrator's responsibility to insure that all policies coincide with the Administration's task of aiding, counseling, assisting and protecting the interests of the American small businessman.

The Administrator delegates responsibility and authority to carry on functions coincident with the SBA's primary task to the Deputy Administrator, Associate Administrators, and Area Administrators. Certain functions, however, remain with the





Washington Office Administrator. These are the authority to approve or disapprove: (1) pool loans; (2) research programs; and (3) defense production pools.

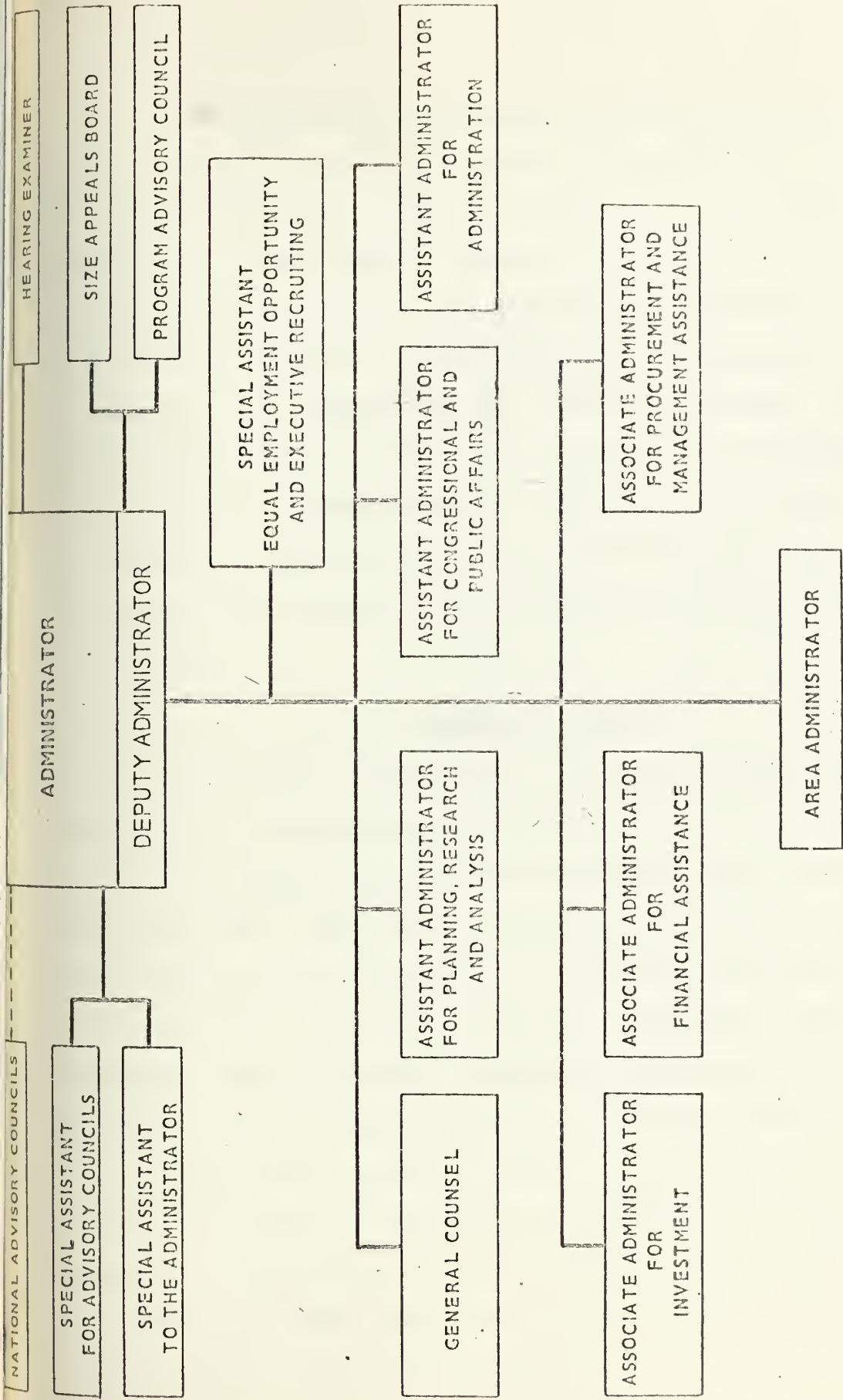
The Administrator has the further responsibility to consult with other Federal, state, and local agencies concerning the interests of small business, and to report to both the President and the Congress on the status and accomplishment of the Administration's program, and any problems pertaining thereto.

#### Deputy Administrator

The Deputy Administrator is appointed by the Administrator for the purpose of assisting him in the execution of the programs of the SBA. The Deputy Administrator has full authority to act for the Administrator in his absence or disability, except as noted above.

The Size Appeals Board reports directly to the Deputy Administrator. The Board's function is to review size appeals cases and make recommendations to the Administrator. A size appeal is an action initiated by a business when it has been determined that the business in question does not meet the criteria for a small business. The Board's members are the Deputy Administrator, as Chairman, the Associate Administrators for Procurement and Management Assistance and Financial Assistance, and the Assistant Administrator for Planning, Research and Analysis. The General Counsel serves as the legal adviser to the Board.





Approved: Robert C. Noot  
 Administrator  
 September 22, 1967

Chart 1



National Small Business Advisory Council

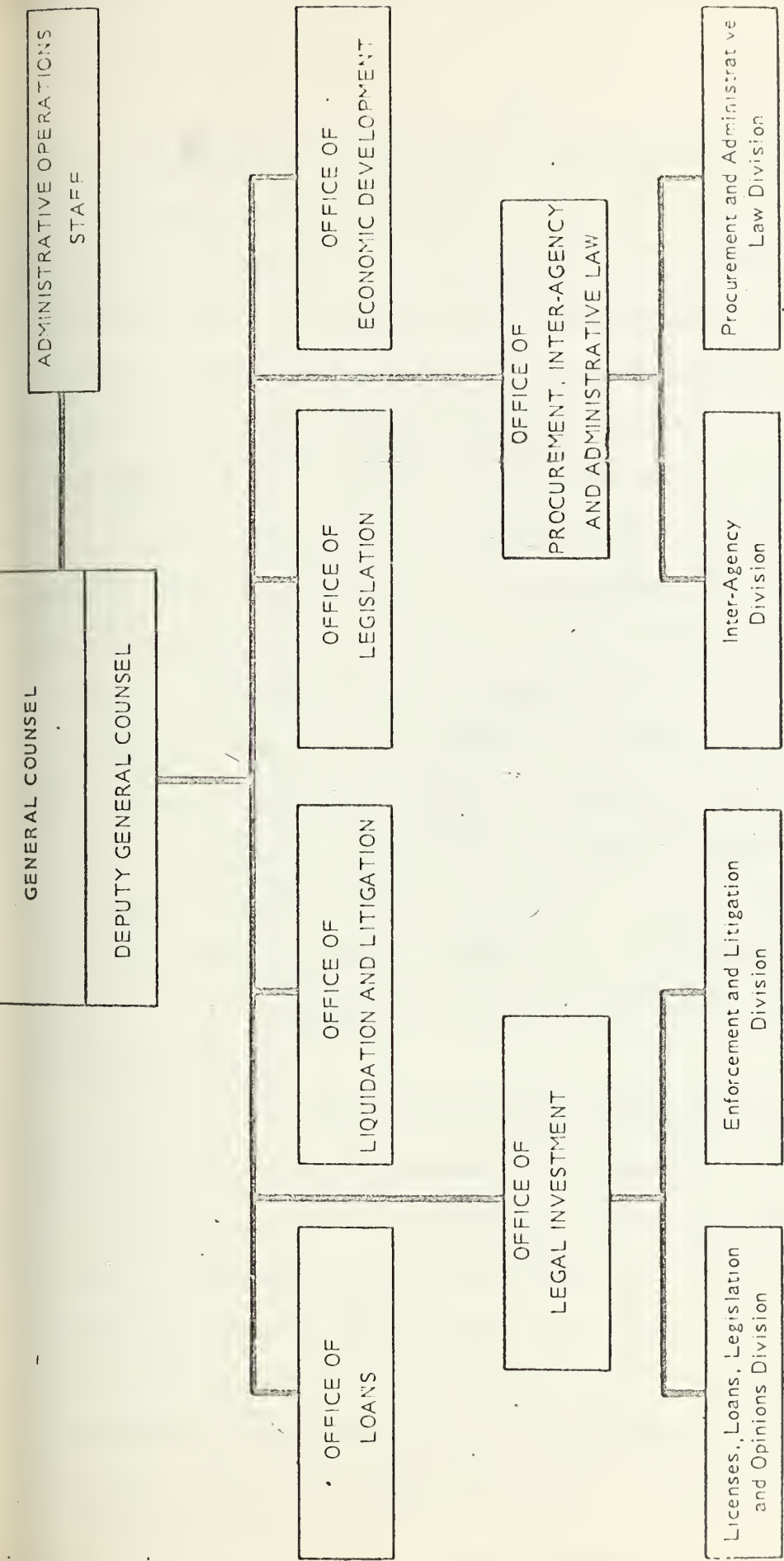
The National Small Business Advisory Council functions in a totally advisory capacity to the SBA. The Council members represent an integration of experts in the fields of business, finance, and government. The members are selected by the Administrator because of their displayed avowed interest in and sympathy for the problems of the small businessman. The members serve without compensation, and are headed by a chairman appointed by the Administrator. The function of the Council is to advise the Administrator on the feasibility, value, and/or progress of SBA programs, and to recommend changes where deemed appropriate.

General Counsel

The General Counsel has the primary responsibility of analyzing and interpreting all legislation, regulations, and orders pertaining to the activities of the Small Business Administration. The General Counsel also serves to advise the Administrator and the appropriate Associate Administrator as to the legal aspects of SBA's financial, investment, administrative, technical, and procurement assistance programs, and to determine the eligibility of applicants for assistance from the SBA.

The General Counsel further assists the Department of Justice in lawsuits concerning delinquent loans and other SBA programs, including prosecutions under the Small Business Investment Act. Any legislation proposed by the SBA is drawn up by the office of the General Counsel.





Approved: Bernard L. Soutin  
 Administrator  
 December 15, 1966

Chart 2  
 General Counsel





The Office of Loans is responsible to the General Counsel via the Deputy General Counsel. This office is charged with the function of advising the Administration on any legal problems in connection with the application, disbursement, or administration of loans. The Office also aids in interpreting the Small Business Act, especially in situations where the eligibility requirements for a loan may be in question.

The Inter-Agency Division fills an extremely important position within the Office of Procurement, Inter-Agency, and Administrative Law, an office within the framework of the General Counsel. This Division is responsible for the direction, coordination and administration of the SBA's interagency program. When the small business interest appears jeopardized by the actions, policies, or programs of other governmental agencies, the Inter-Agency Division champions the small businessman before the appropriate agency or agencies. The Division also represents the SBA at interagency industrial conferences, and hearings and court proceedings.

The Procurement and Administrative Law Division is also under the Office of Procurement, Inter-Agency and Administrative Law. This Division is responsible for legal advice concerning policies, agreements, and procedures in connection with the SBA procurement and technical assistance programs. These programs include the subcontracting, research and development, certificates of competency, small business management and research, and size appeals programs. Further, the Division



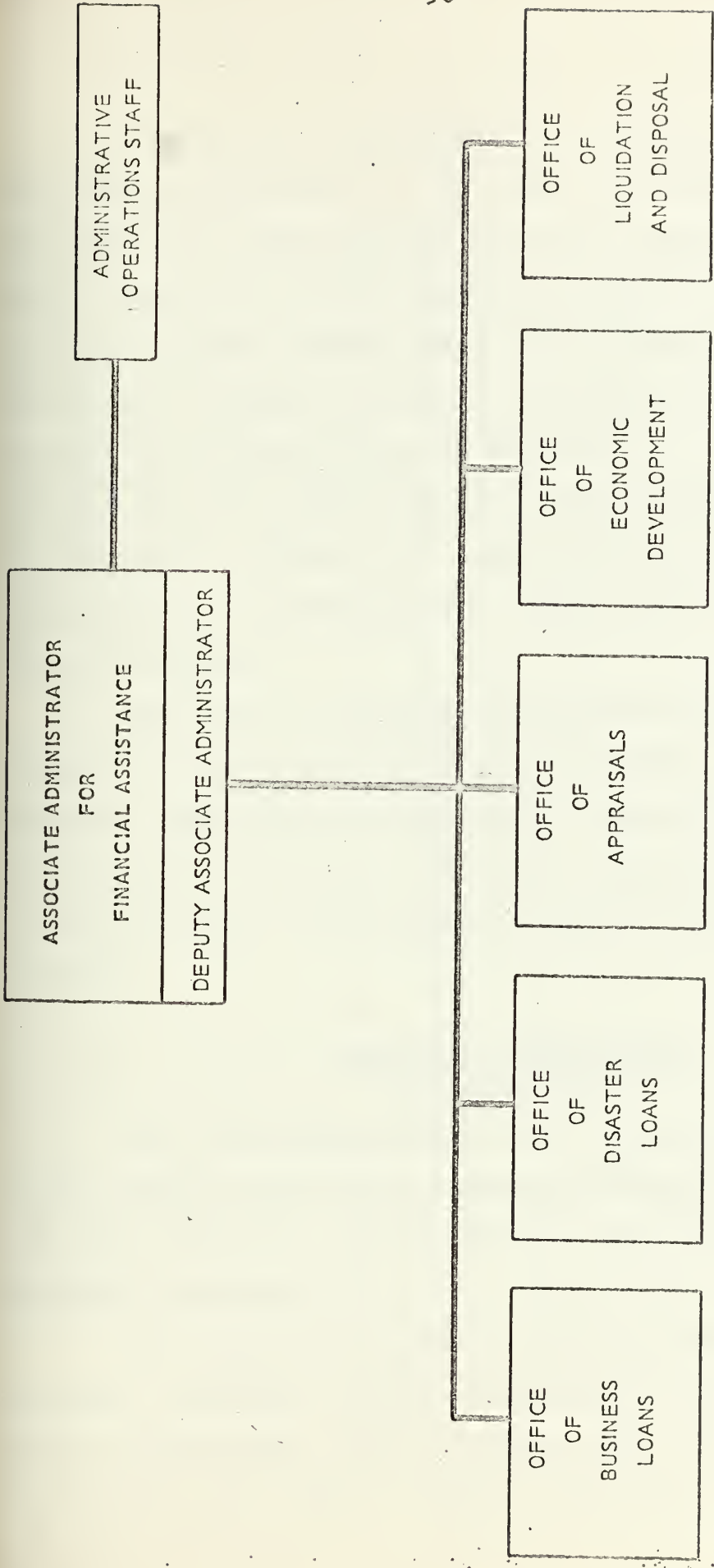
offers assistance to small firms when dealing with Federal government procurement agencies, and examines the legal facets of interagency programs concerned with assisting small business as either a prime or subcontractor.

Associate Administrator for  
Financial Assistance

The Associate Administrator for Financial Assistance is responsible to the Administrator for the planning, direction, coordination, and implementation of the financial assistance programs of the SBA.

Assisting the Associate Administrator for Financial Assistance is the Office of Business Loans. The Office of Business Loans is the final authority on the Business Loan Program, and, as such, is responsible for the development of policy pertaining to business loans. The Office also carries the responsibility for implementation of the regular business loan, displaced business loan, economic opportunity loan and lease guarantee programs. The development of financial standards to be used in the awarding of Certificates of Competency is a further task of the Office of Business Loans. An extremely critical function is the coordination with the private lending institutions for the purpose of improving the participation and loan guaranty programs and of promoting better bank relations with SBA with an eye toward increasing the money market available for SBA loans. The Business Loans Office also has authority to approve or disapprove any loan applications submitted to it.





Approved: Bernard L. Boutin  
 Administrator  
 December 15, 1966

Chart 3

Associate Administrator for Financial Assistance



A second unit subordinate to the Associate Administrator for Financial Assistance is the Office of Disaster Loans which is responsible for the effecting of policy and procedures concerning the SBA programs covering physical, major or natural disaster loans and economic injury loans. The Office of Disaster Loans additionally analyzes reports of physical disaster damage received from field offices to determine if a disaster should be declared and aid to the area or persons recommended to the Administrator. Liaison with appropriate governmental and private organizations is maintained for the purpose of providing aid in times of disaster.

The Office of Economic Development is responsible for the conduct of the Economic Development Programs, the 501 and 502 Programs. The Office is divided into two divisions, the Eastern and the Western Divisions, which are responsible for the administration of the Economic Development Program in the area assigned.

Associate Administrator  
for Investment

The Associate Administrator for Investment is responsible to the Administrator for the administration of the Small Business Investment Program. In his efforts, he is assisted by the following positions:

The Office of Program Development monitors the Small Business Investment Company operations in order to determine their effectiveness, and to analyze their operations for possible improvement. The Office conducts research studies with the intent





ASSOCIATE ADMINISTRATOR FOR INVESTMENT
DEPUTY ASSOCIATE ADMINISTRATOR FOR INVESTMENT

STAFF DIRECTOR

OFFICE OF  
PROGRAM  
DEVELOPMENT

OFFICE OF  
CHIEF  
ACCOUNTANT

OFFICE OF  
ADMINISTRATIVE  
OPERATIONS

OFFICE OF EASTERN SBIC OPERATIONS

Northeastern  
New York  
Middle Atlantic  
Southeastern

OFFICE OF WESTERN SBIC OPERATIONS

Southwestern  
Midwestern  
Pacific Coast: (Excluding Southern Calif.)  
Rocky Mountain (Including Southern California)

Chart 4

Associate Administrator for Investment

Approved: Robert C. Moot  
Administrator  
September 20, 1967



of perpetuating the SBIC as an established financial institution for small business.

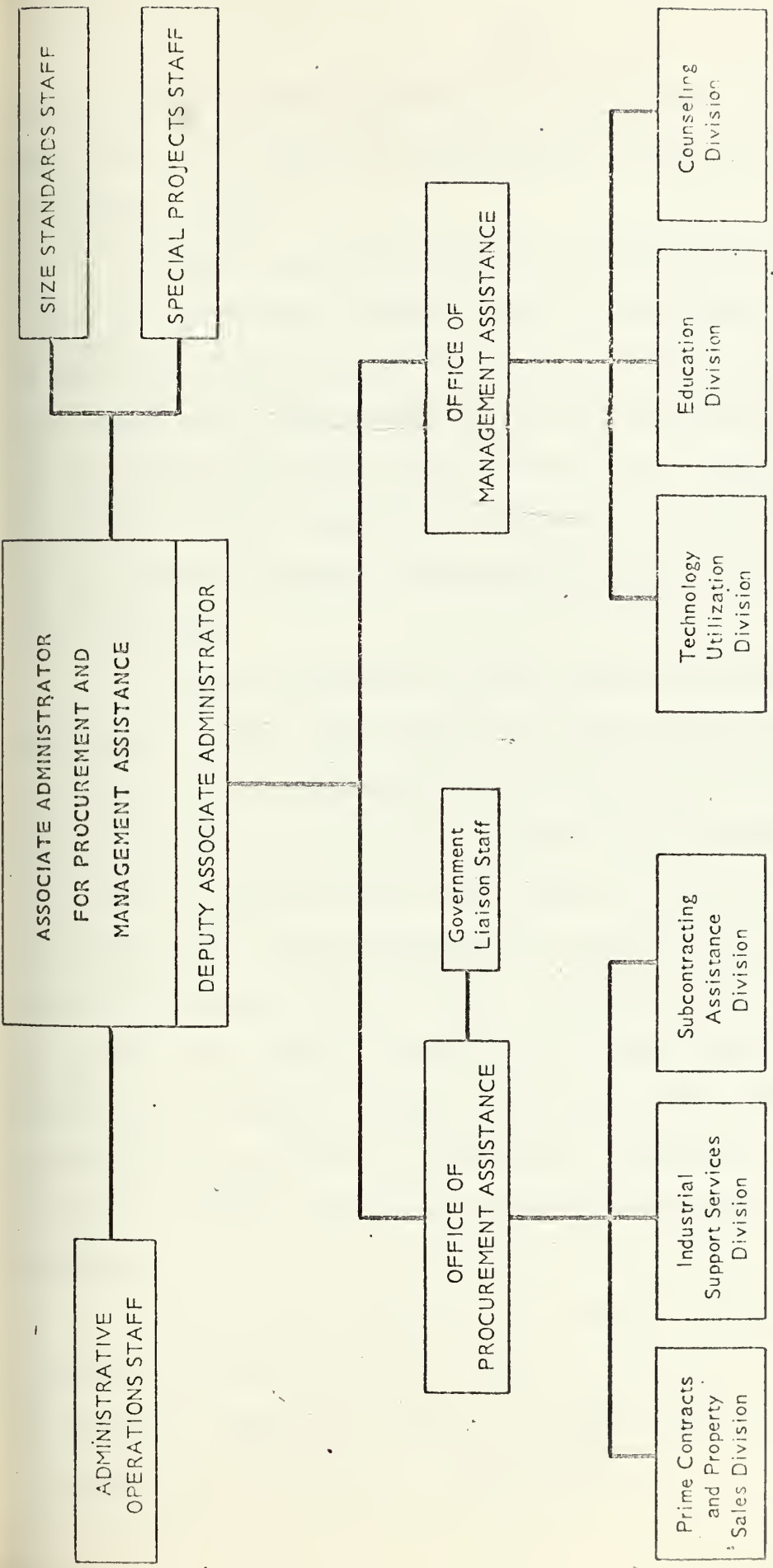
The Offices of Eastern and Western SBIC Operations are assigned the task of assisting SBIC's located in their assigned areas. They analyze all financial statements and other documents relating to the operation of an SBIC, and render operational assistance where needed. Further, they act as interpreters of the SBI Act for the SBIC's within their areas, and promulgate policies as developed by the Associate Administrator for Investment

Associate Administrator for Procurement  
and Management Assistance

The Associate Administrator for Procurement and Management Assistance is responsible for the administration of SBA's procurement and management assistance programs, and is responsible for developing and promulgating policy in the areas. He acts as the direct representative of the Administrator of the Washington Office in negotiations with other governmental activities which are concerned with the procurement and management assistance programs.

One of his two principal units is the Office of Procurement Assistance which formulates and executes the various SBA Procurement Assistance programs. A large portion of the Office's work is concerned with interagency agreements and their preparation, and in this sphere, it represents the Associate





Approved: Robert C. Meot  
 Administrator  
 October 1, 1967

Chart 5

Associate Administrator for Procurement and Management Assistance



Administrator in dealings with the Department of Defense and other Executive Agencies concerning activities of a procurement assistance nature.

A staff arm of the Office of Procurement Assistance is termed the Government Liaison Staff. The Staff's major task is to work with DOD, GSA, and other governmental agencies concerned with government procurement to insure coordination of their policies and goals with those of the SBA. The Government Liaison Staff is primarily concerned with seeing to it that a fair share of government contracts for goods and services are awarded to small business.

A second assistant to the Office of Procurement Assistance is the Prime Contracts and Property Sales Division. This Division is responsible for entering into and administering prime contracts as set forth in the Small Business Act. Also, the Division performs two other major functions. One is to coordinate with other governmental agencies to insure that small business receives a fair share of surplus sales of government property. The second function is to work side by side with the Business and Defense Services Administration, the Department of Commerce and the Office of Emergency Planning to alleviate problems of small business caused by shortages of critical materials.

A secondary function is to review disputes of small business on procurement dealings with GSA, DOD, and other procurement agencies. The U. S. Government Purchasing and Sales Directory is published by the Division.





The Industrial Support Services Division is responsible for the formulation of policies and procedures dealing with the Certificate of Competency (COC) Program. Additionally, the Division conducts plant inspections as part of the processing procedure for a COC application, and provides industrial and production engineering assistance to small business concerns experiencing difficulties in performing a prime or sub-contract.

The last of three divisions under the Office of Procurement Assistance is the Subcontracting Assistance Division. This division is tasked with the responsibilities of insuring that the Small Business Subcontracting Program is functioning effectively and of maintaining the Inventories of Productive Facilities of Small Business. In effectively maintaining the subcontracting opportunities for small business, the Division coordinates its actions with DOD and GSA to insure that small business is being given proportionate consideration for subcontracting with government prime contractors, and to become aware of those contract areas in which small business does not participate. Hopefully, the Division, by means of its Inventories of Productive Facilities and communications with nation-wide Field Offices, will be able to locate and stimulate participation in these voided subcontracting areas, thereby creating new avenues of approach to contract procurement for the small businessman.

The second main assistant to the Associate Administrator is the Office of Management Assistance, which coordinates SBA's programs of small business management development, and works in



liaison with other executive agencies concerned with management assistance programs.

Reporting to the Office of Management Assistance are three divisions: (1) Technology Utilization Division; (2) Education Division; and (3) Counseling Division. The Technology Utilization Division is responsible for collecting, processing and disseminating to small firms technological development information gathered from research and development activities. The Education Division prepares and distributes management and procurement counseling material to SBA personal counselors, members of SCORE chapters, Development Company counselors, and all other SBA officials engaged in counseling activities. Material for SBA conferences, workshops and clinics is also prepared by the Education Division. Material prepared as a result of independent educational institution research or the management research grant program is forwarded to the Division for possible inclusion in their counseling materials.

The Counseling Division coordinates all SBA counseling activities. It is the principal contact point for the SCORE program.

#### Others

The Assistant Administrators for Congressional and Public Affairs, Administration, and Planning, Research and Analysis are responsible for primarily administrative functions necessary and incident to SBA's principal programs. Space precludes detailed



discussion of their specific functions. Functional charts are included as a matter of interest to the reader.

### Field Offices

A field office is any other office of the SBA other than the Washington Office. There are three types of field offices: (1) Area Office; (2) Regional Office; and (3) Branch Office.

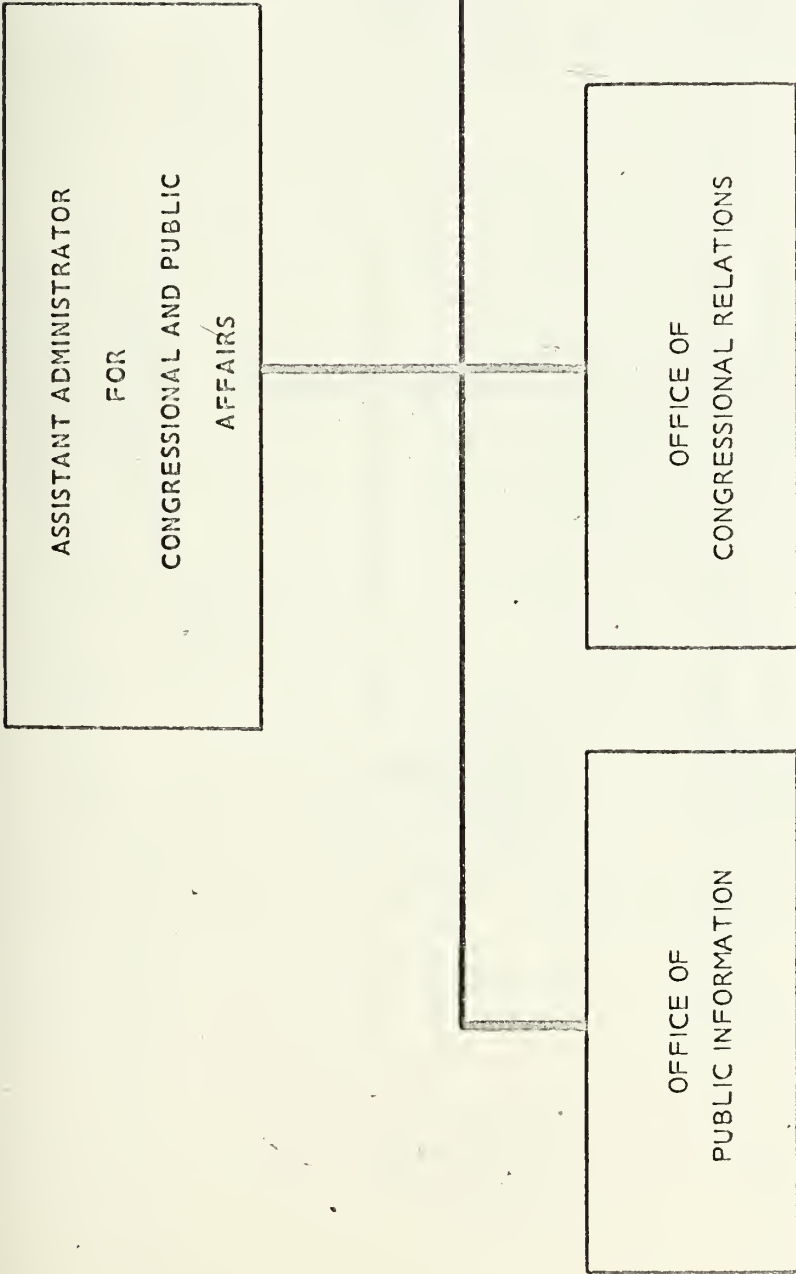
An Area Office is headed by an Area Administrator who is responsible to the Washington Office Administrator for the execution of SBA activities in the area assigned. The Area Office is also responsible for giving guidance and direction to the regional offices assigned to it.

A Regional Office is directed by a regional director, responsible to the appropriate Area Administrator. The office implements SBA programs within its area of jurisdiction.

A Branch Office is run by a branch manager, responsible to the appropriate regional director. Its functions deal primarily with the conduct of SBA financial programs.

Charts 9, 10, and 11 depict the organization of the three field offices. The offices, divisions, and programs counterpart to the Washington Office Organization perform the same functions on a smaller scale and on a more operational grass roots level than their Washington opposite numbers. To describe the functions of the Field Offices in detail would be redundant. From the preceding description of the more operational areas of the Washington Office, and using Charts 9, 10, and 11, it is felt





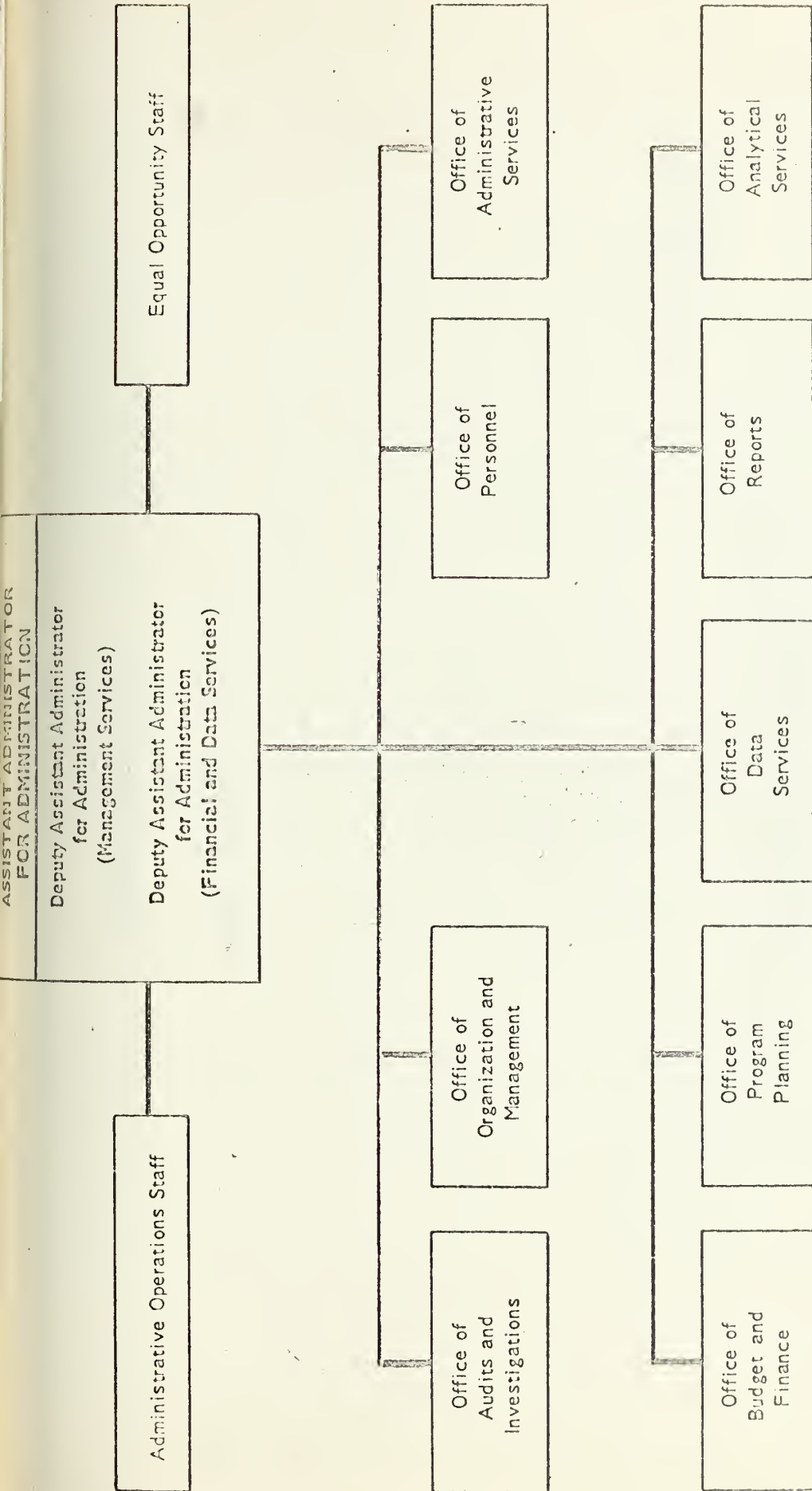
Approved: Bernard L. Boutin  
Administrator  
January 3, 1967

Chart 7

Assistant Administrator for Congressional and Public Affairs







Approved: Bernard L. Boutin  
 Administrator  
 March 17, 1967

Chart 6

Assistant Administrator for Administration



ASSISTANT ADMINISTRATOR

FOR

PLANNING, RESEARCH, AND ANALYSIS

Chart 8

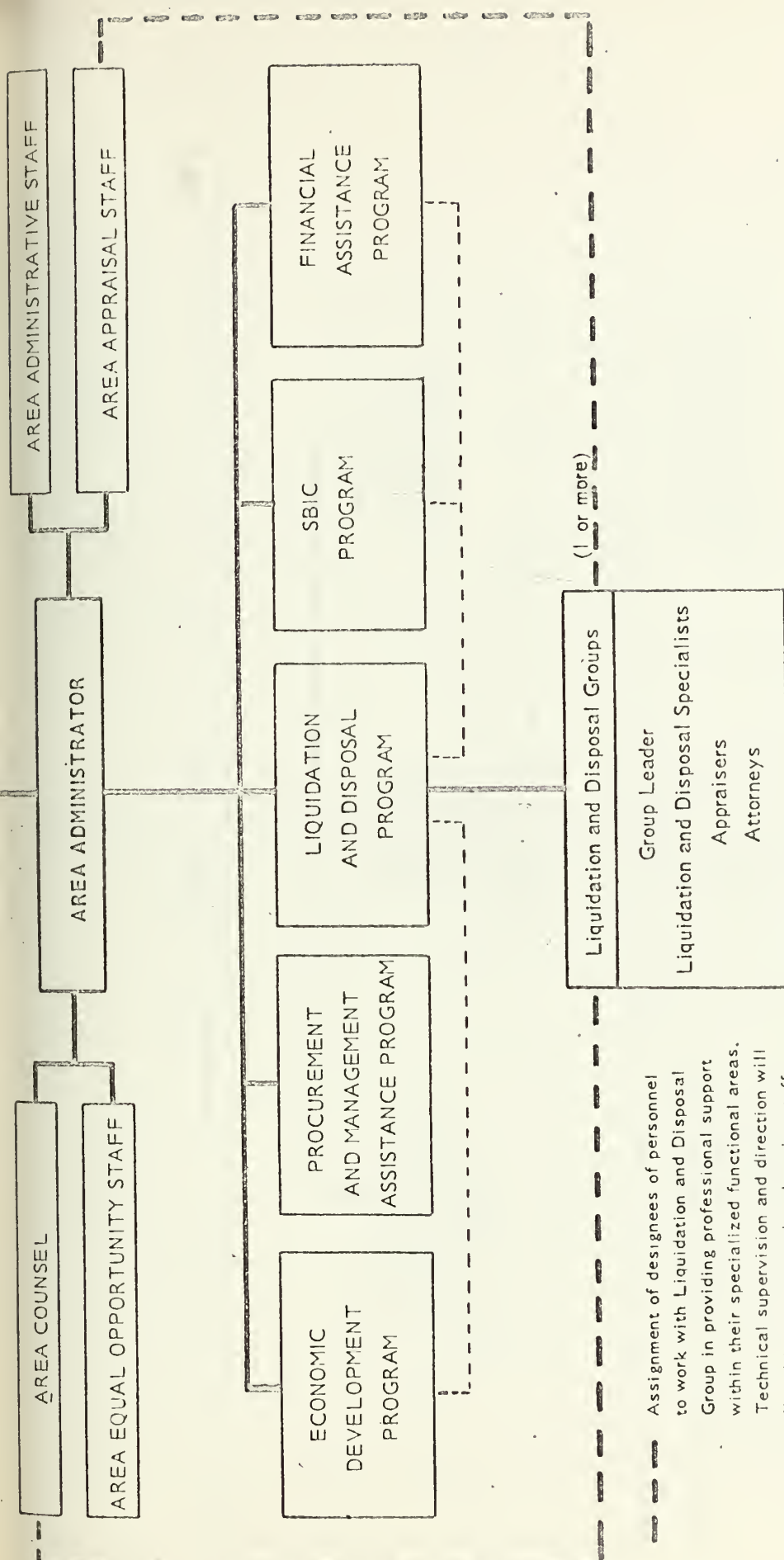
Assistant Administrator for Planning,  
Research, and Analysis

Approved: Bernard L. Boutin  
Administrator  
May 15, 1967



that an adequate portrayal of these subordinate activities is presented.





- - - - - Assignment of designees of personnel to work with Liquidation and Disposal Group in providing professional support within their specialized functional areas. Technical supervision and direction will lie with area counsel and senior staff appraisers.

- - - - - Close cooperation and coordination.

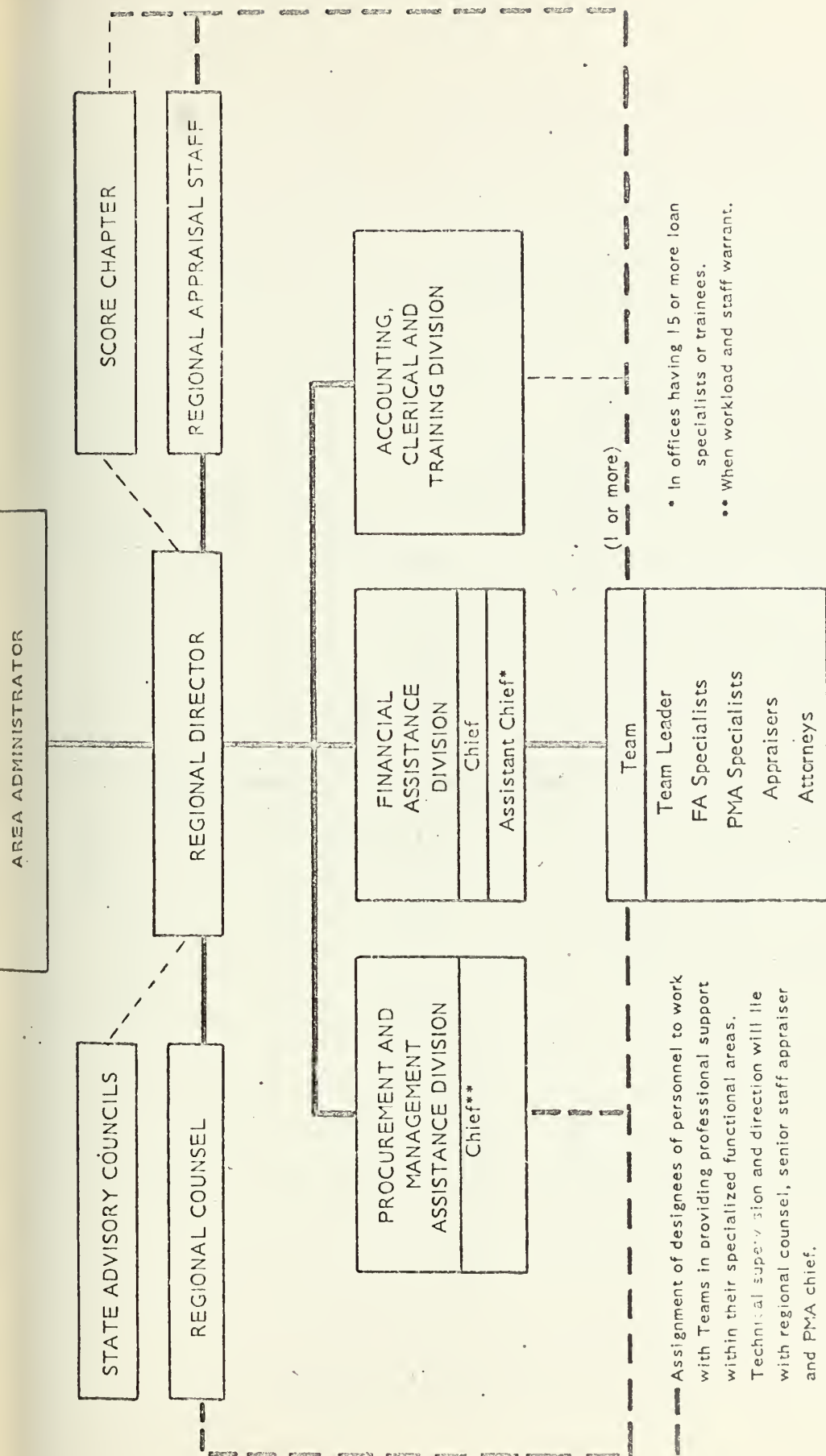
Approved: Bernard L. Boutin  
 Administrator  
 December 15, 1966

Chart 9

Area Administrator







--- Assignment of designees of personnel to work with Teams in providing professional support within their specialized functional areas. Technical supervision and direction will lie with regional counsel, senior staff appraiser and PMA chief.

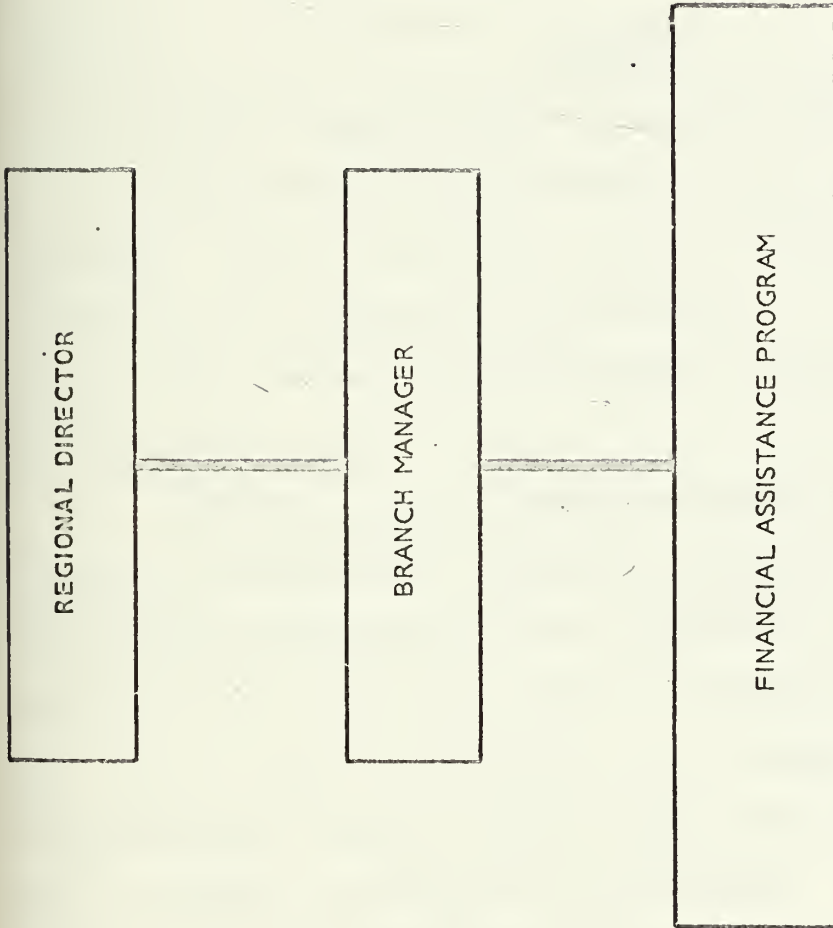
--- Close cooperation and coordination.

\* In offices having 15 or more loan specialists or trainees.  
 \*\* When workload and staff warrant.

Chart 10  
 Regional Director

Approved: Bernard L. Boutin  
 Administrator  
 December 15, 1966





Approved: Bernard L. Boutin  
Administrator  
December 15, 1966

Chart II  
Branch Manager



## CHAPTER VIII

### RESULTS AND CONCLUSIONS

#### Results

The preceding material has been presented as background in an attempt to provide an answer for the basic question of this research: How has the Small Business Administration aided small business in the competitive environment? It is in the results of the Small Business Administration's programs that we search for our answer.

President John F. Kennedy has said that "one of the greatest challenges of the 1960's will be to strengthen the small independent businessman."<sup>1</sup> The answer to this challenge has been searched for by the Small Business Administration since 1953. By a slow process of building an aid program designed for the "strengthening" action, the SBA has contributed significantly to small business's position in the economy. The aid program, consisting of the management, procurement, and financial aspects as presented in this paper, has been designed to help keep the entrance door to the marketplace open for the entrepreneur who

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<sup>1</sup>U. S., White House Committee on Small Business, Progress Report to the President (Washington: Government Printing Office, 1962), p. 9.



is willing to ask for, accept, and put to use the assistance offered by this governmental agency. While there is no accurate method of assessing the complete benefits of SBA's efforts to the small business populace, there is little doubt that the rate of business failures would be higher, the rate of small business growth smaller, and the level of employment significantly less without the help of SBA.<sup>1</sup> As an example, in one program area where \$196 million were provided in loan assistance, almost 50,000 new jobs have been created.<sup>2</sup>

A further illustration of how the starting of a new small firm aids the perpetuation of the small business community and contributes to sound new community development is the following digest of facts, presented by the U. S. Chamber of Commerce which depict the economic and sociological impact 100 new factory workers have on a community:

359 more people

100 more households

91 more school children

\$229,000 more bank deposits

3 more retail establishments

97 more passenger cars registered

\$331,000 more retail sales per year

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<sup>1</sup>Small Business Administration, Small Business Administration and Small Business . . . A Partnership (Statement of Bernard A. Boutin before the Senate Select Committee on Small Business, March 1, 1967), (Washington: Government Printing Office, 1967), p. 31.

<sup>2</sup>Ibid., p. 32.





65 more employed in non-manufacturing  
\$710,000 more personal incomes per year.<sup>1</sup>

In the period from July 1, 1958 to December 31, 1967, a total of 1,556 local development company loans by SBA resulted in a total of 64,631 employment opportunities.<sup>2</sup> In an analysis of reports furnished by 1,381 SBIC-assisted small businesses, an employment increase of 11,800 jobs was shown.<sup>3</sup>

New small business entrants have nearly doubled the 1953 rate, while the rate of small firm failures has been steadily decreasing since its SBA-era high of 1961.<sup>4</sup> Earnings after taxes for small firms have skyrocketed from a 1961 indicator of 80 to a 1967 indicator of 360 (using the base period 1957-1959 as an index of 100).<sup>5</sup>

Perhaps the most important indicator of the well-being of a business is its profits. Profits are a reflection of the firm's competitive position and a manifestation of the company's chances for survival in the business world. In a study of the results of the SBA's Financial Assistance Programs, it was shown that SBA loan-assisted firms have shown a continual upward linear

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<sup>1</sup>Small Business Administration, Statistical Sheet, unpublished, undated, mimeographed, p. 1.

<sup>2</sup>Ibid., p. 3.

<sup>3</sup>Small Business Administration, SBIC Digest, August, 1968, p. 2.

<sup>4</sup>Small Business Administration, Annual Report, 1967, pp. 3-5.

<sup>5</sup>Ibid., p. 8.



slope when their profits are plotted against the number of years subsequent to their loan.<sup>1</sup> (See Chart 12). The only year in which profits show a decrease is the first year after the loan, which is understandable. The first year downward swing is a result of the firm's increased costs structure because of the loan, and the fact that any capital improvements effected with the loan have not had an opportunity to become effective. Additionally, from Chart 12, it can be seen that three other measures of a firm's growth, net sales, total assets and net worth, also show a constant upward trend. Chart 14 shows a comparison of profit growth between SBA borrowers and all corporations. Profit for an SBA-assisted firm grew at an average rate of 14.3 per cent a year, as compared to an average rate of 6.5 per cent for all other firms. The further breakdown of growth rate by manufacturing, wholesale, retail, and service industry in Chart 14 indicates that the small businessman's competitive position is improved in most cases when an SBA financing program is utilized. The slight difference in profit growth in the retail firms (8.0 per cent for SBA firms, and 9.3 per cent for all others) is small enough to be negligible.

SBA borrowers, on the average, have increased their profits by 45.9 per cent, sales by 7.6 per cent, assets by 6.8 per cent, and net worth by 5.0 per cent. These figures are all the more indicative of SBA-firm success when compared to similar

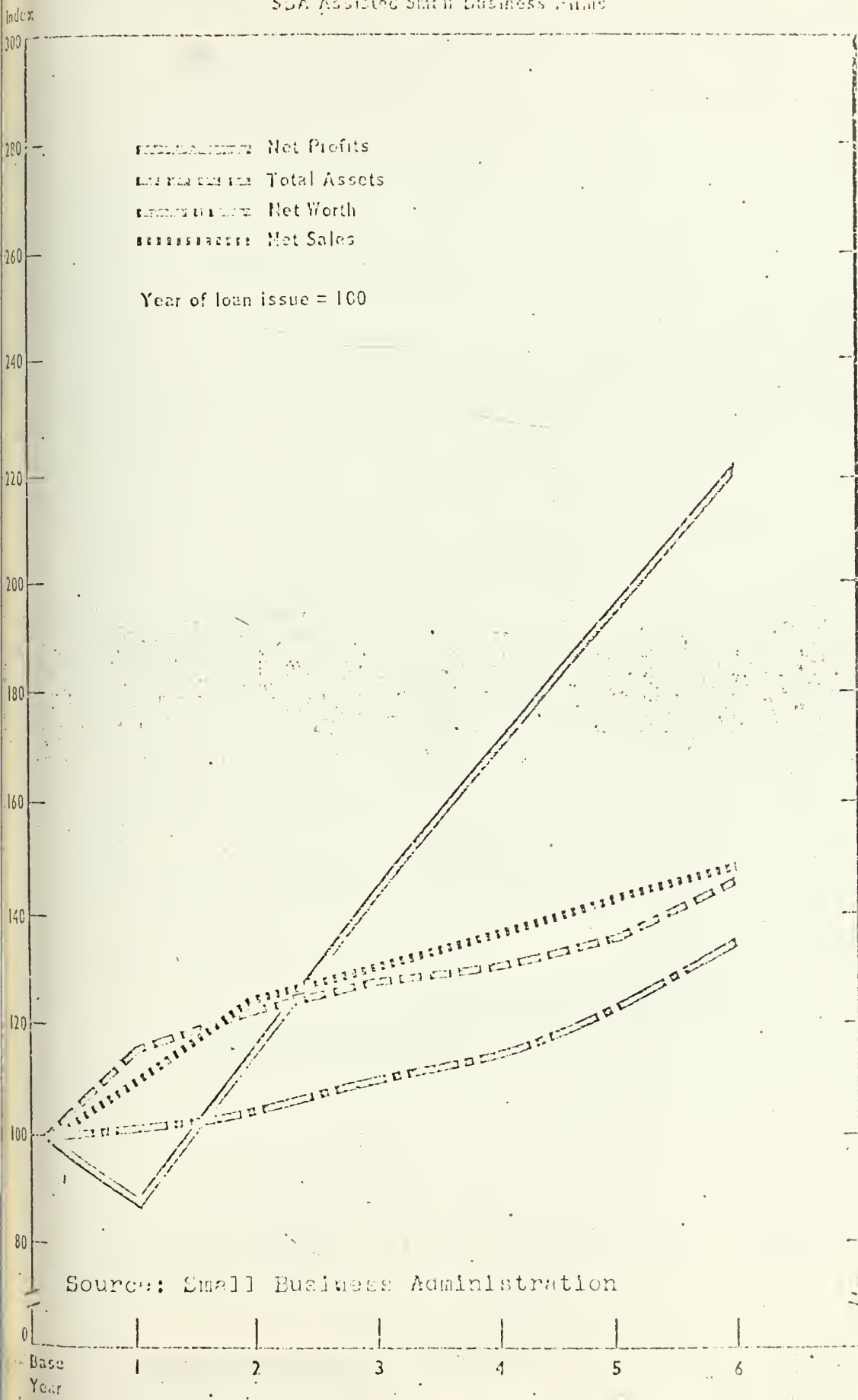
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<sup>1</sup>Small Business Administration, "Appendix C" to Program Memorandum, unpublished, 1969, p. 15.



### GROWTH PATTERNS

SBA Assisted Small Business Firms



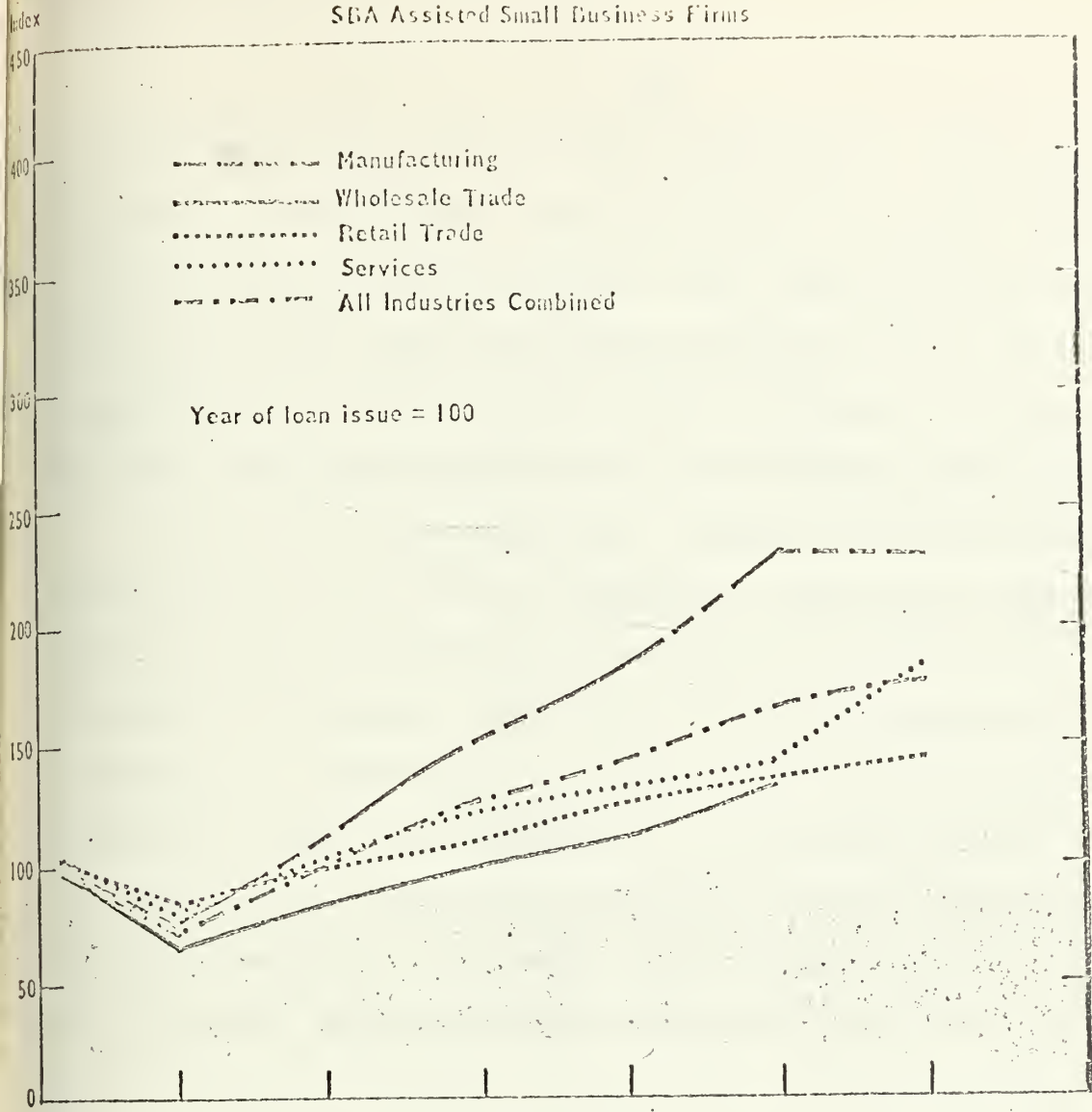
Source: Small Business Administration

Chart 12  
Growth Patterns of SBA Assisted Firms



### NET PROFITS

SBA Assisted Small Business Firms



### NET SALES

SBA Assisted Small Business Firms

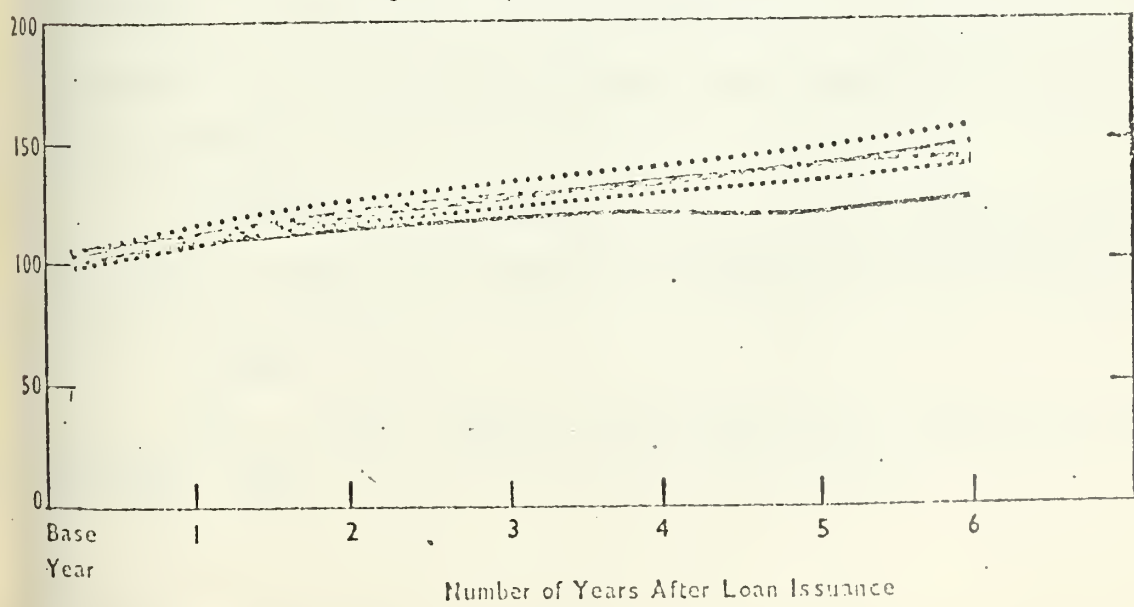


Chart 13  
Net Profits of SBA Assisted Firms





statistics from the Federal Trade Commission. These figures show that firms with less than \$1 million in assets have increased profits annually by 15 per cent, their sales by 7.1 per cent, assets by 5.2 per cent and their net worth by 3.4 per cent. Comparisons of similar figures from the Office of Business Economics with SBA results again proved better performance.<sup>1</sup>

It is far more difficult, however, to quantitatively assess the success of SBA's managerial assistance programs, except to assume financial success to be an indicator of good management techniques. The SBA is now in the process of attempting to cross-index small business financial success as reported to them with information as to whether or not the firm has requested and received management assistance from SBA.<sup>2</sup> It would follow that a successful small business which has received SBA managerial training could attribute some of its good fortune to the financial know-how and personnel, production, and sales techniques imparted to its management from SBA. In this financial day and age, it is imperative to be schooled in management techniques if efficient practices are to be employed by the company.

Taxation is one area in which the SBA has not been able to assume a very active role in bringing about any drastic

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<sup>1</sup>Ibid., p. 9.

<sup>2</sup>Mrs. Alice Cullen, SBA statistician, Small Business Administration, private interview in Washington, D. C., March 17, 1969.



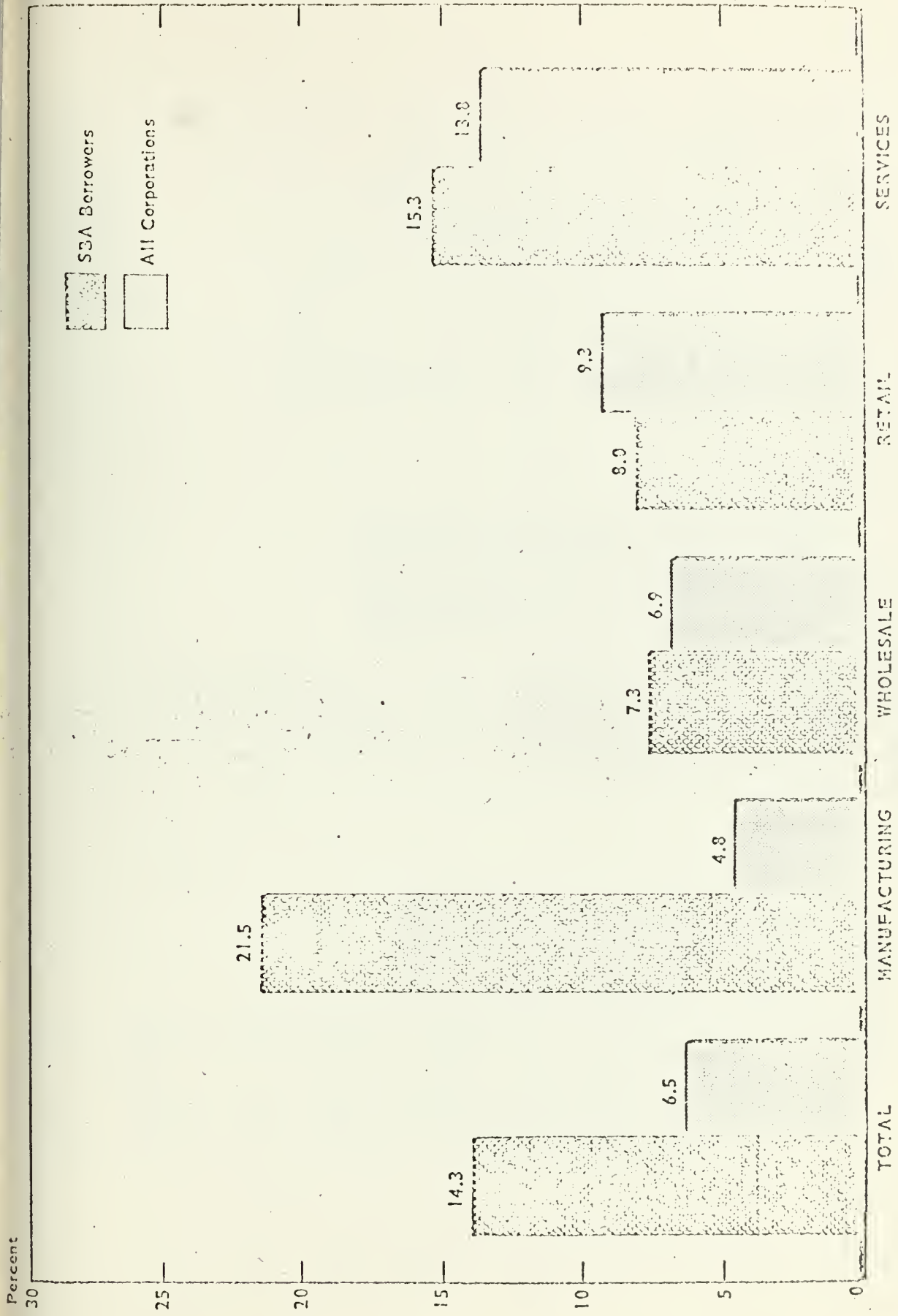
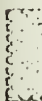



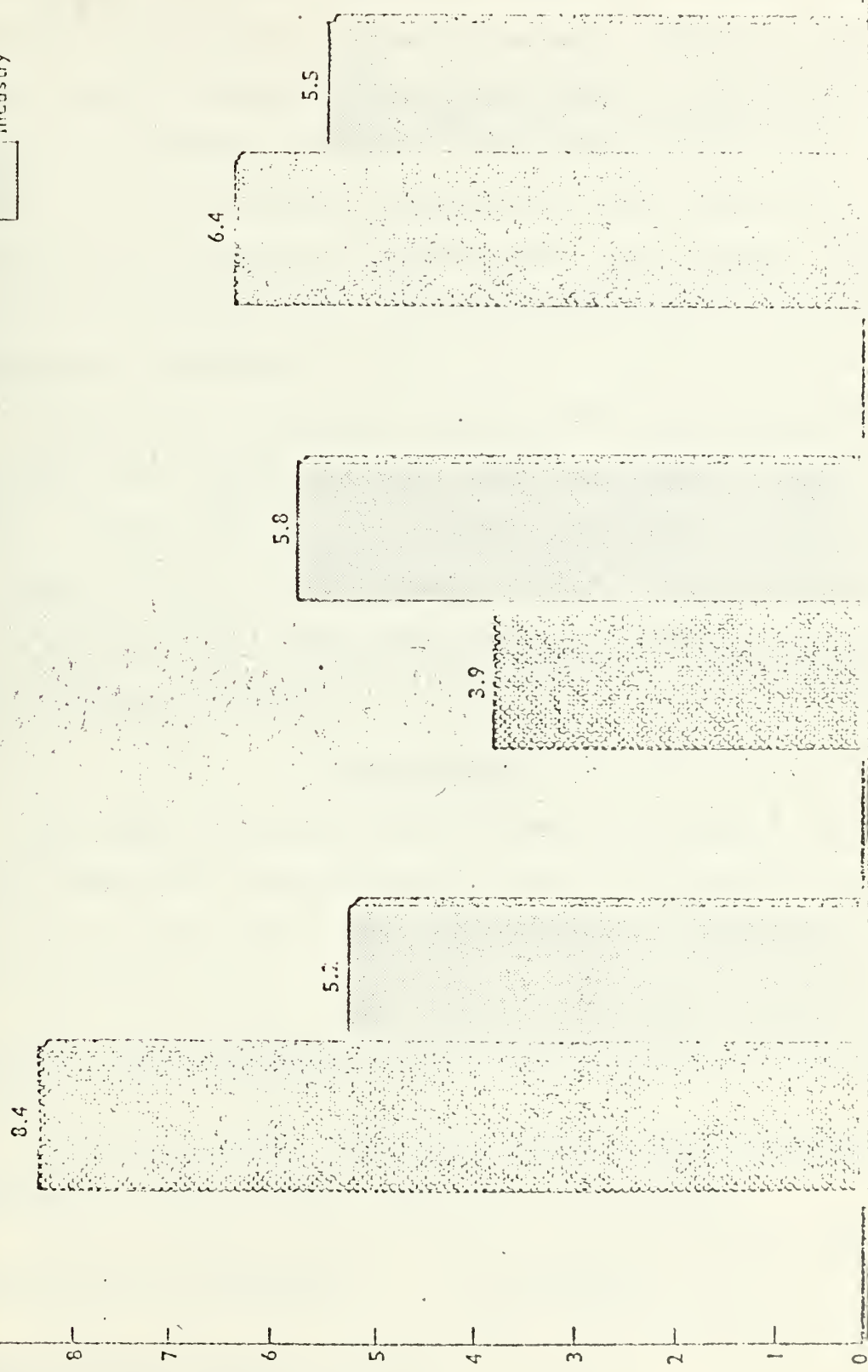
Chart 14  
Profit Growth Comparison



(Annual Rates)

Percent

 SBA  
 Industry



RETAIL

WHOLESALE

MANUFACTURING

Chart 15  
Sales Growth Comparison



reductions in the effect upon small business. SBA has, however, given every encouragement to small business lobbies in their petitions against increased taxation,<sup>1</sup> and has made use of a co-sponsored operation called the tax clinic. This is a consultation by SBA-Internal Revenue officials with small business for the purpose of insuring that the business tax system is understood by management, and applications peculiar to small businesses are followed.<sup>2</sup>

Procurement assistance programs have been successful in obtaining a "fair share" of government purchases for small business. Small business has obtained government procurement on a yearly ratio to large business of 1:5, and this average has been a slight increase over the proportion received prior to SBA's assistance efforts.<sup>3</sup>

#### Conclusion

The Small Business Administration, although it is the national champion of small business, does not profess to guarantee success to each and every small entrepreneur.<sup>4</sup> The SBA has

<sup>1</sup>Mr. Glenn Morrow, SBA Financial Analyst and Taxation Specialist, Small Business Administration, private interview, Washington, D. C., March 19, 1969.

<sup>2</sup>Hearings before the House Committee on Government Operations on Efficiency and Economy in the Small Business Administration, 87th Cong., 2nd sess., pp. 100-101.

<sup>3</sup>Small Business Administration, Small Business Administration and Small Business . . . A Partnership, Table XII.

<sup>4</sup>Small Business Administration, 1st Semi-Annual Report of the Small Business Administration (Washington: Government Printing Office, 1954), p. 4.





undertaken the task of formulating the tools with which the small businessman can help build himself a ladder of success. The position of small business in the economy at the time of the christening of the SBA, and the relative rise to success of small business indicates that some factor must be responsible for the better overall small business situation. This rate of small business improvement and the coincident existence of the SBA suggest a relationship. In the words of ex-President Johnson upon the tenth anniversary of the establishment of the SBA:

Over the past decade, the combined efforts of Congress, the Small Business Administration and the SBIC industry have lent encouragement and incentive to the small entrepreneur, and given him a new will to survive and succeed in an intensely competitive society.<sup>1</sup>

SBA can be the encouragement behind the small firm manager/owner, and can give him the push and courage he may need to succeed. The free enterprise system and the interest, spirit, and cooperation of private interests are what will continue to perpetuate the small businessman. SBA is ready to help, but the necessary ingredients for individual success are courage, hard work, and perseverance. These can only come from the individual himself, and cannot be legislated by any Congress or administered by any agency.

SBA will open its doors--it is up to aspiring small businessmen to knock.

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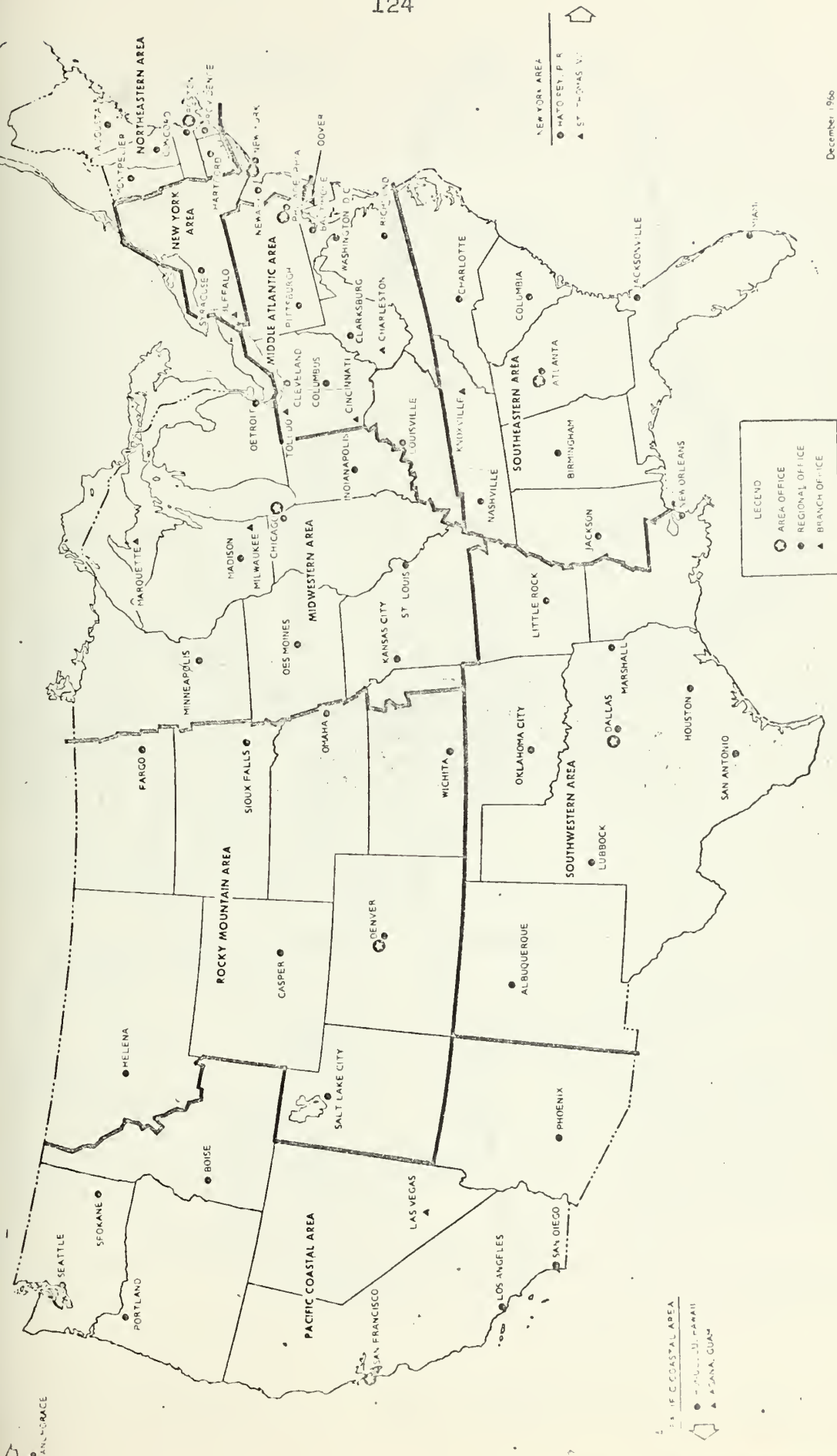
<sup>1</sup>Small Business Administration, SBIC Digest, p. 1.



APPENDIX



Small Business Administration Field Offices



NEW YORK AREA  
 ● HAWAII  
 ▲ ST. THOMAS, V.I.

LEGEND  
 ● AREA OFFICE  
 ▲ REGIONAL OFFICE  
 ▲ BRANCH OFFICE

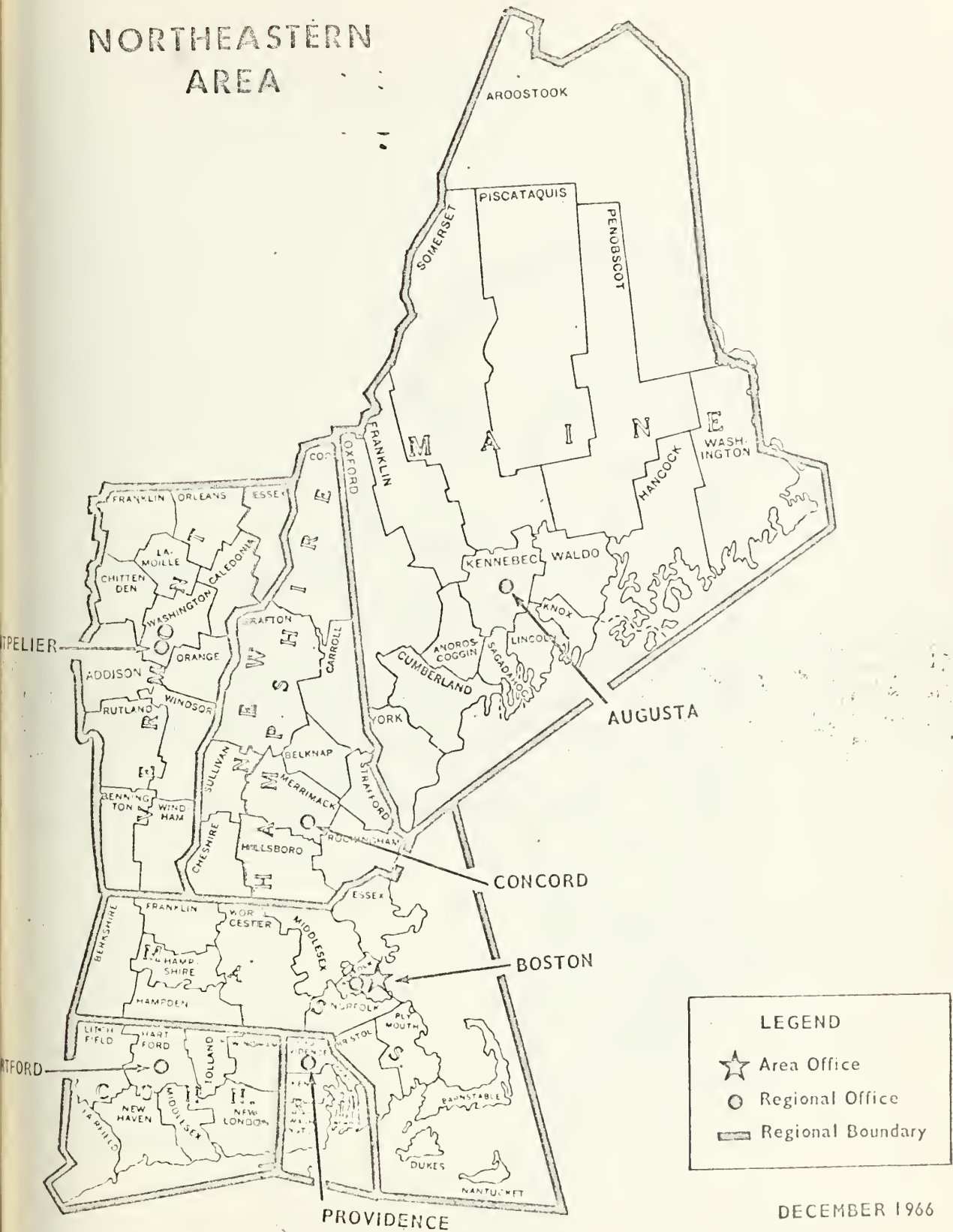
December 1960

1. PACIFIC COASTAL AREA  
 ● HAWAII  
 ▲ ST. THOMAS, V.I.

ALBUQUERQUE



# NORTHEASTERN AREA



DECEMBER 1966

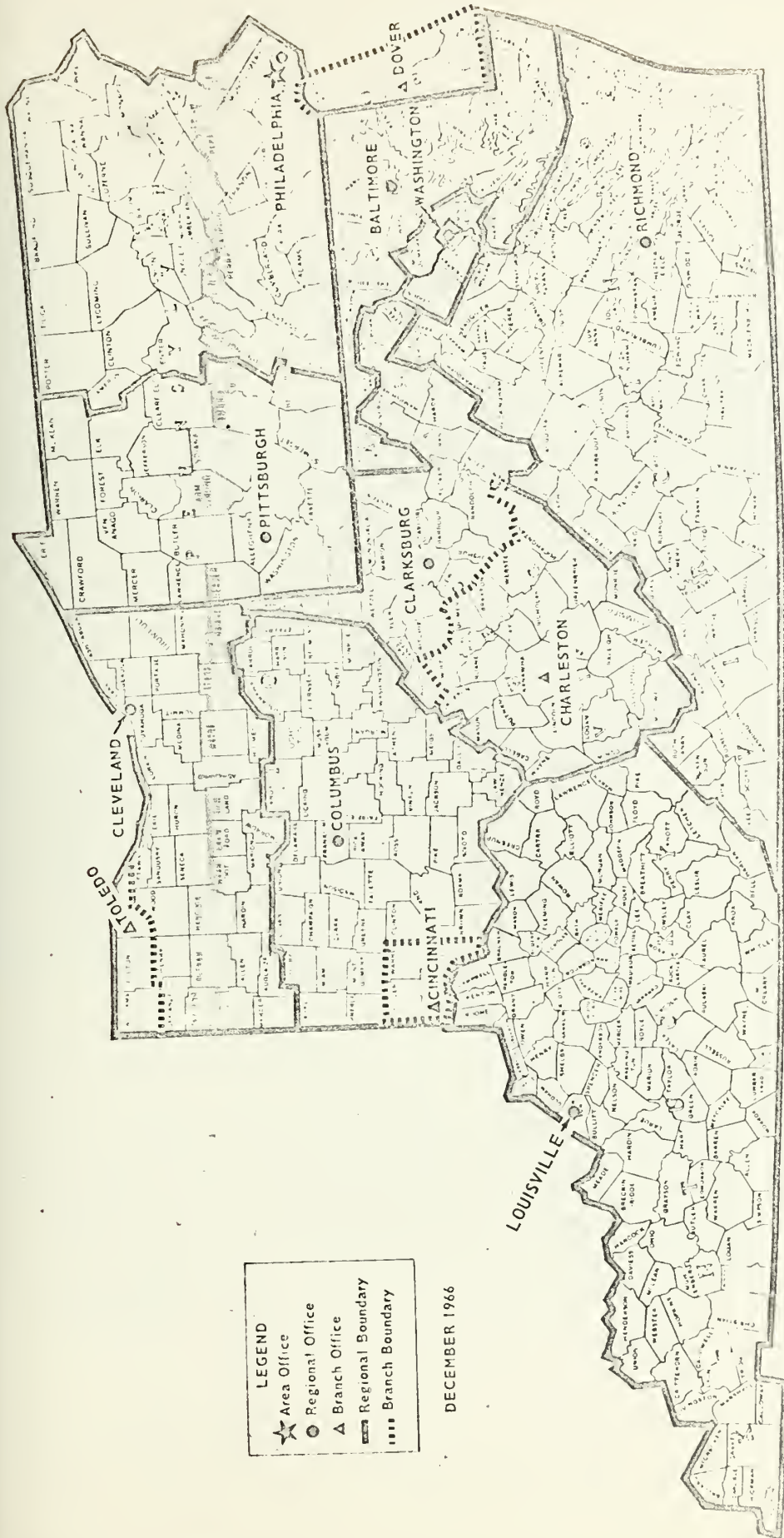








MIDDLE ATLANTIC AREA

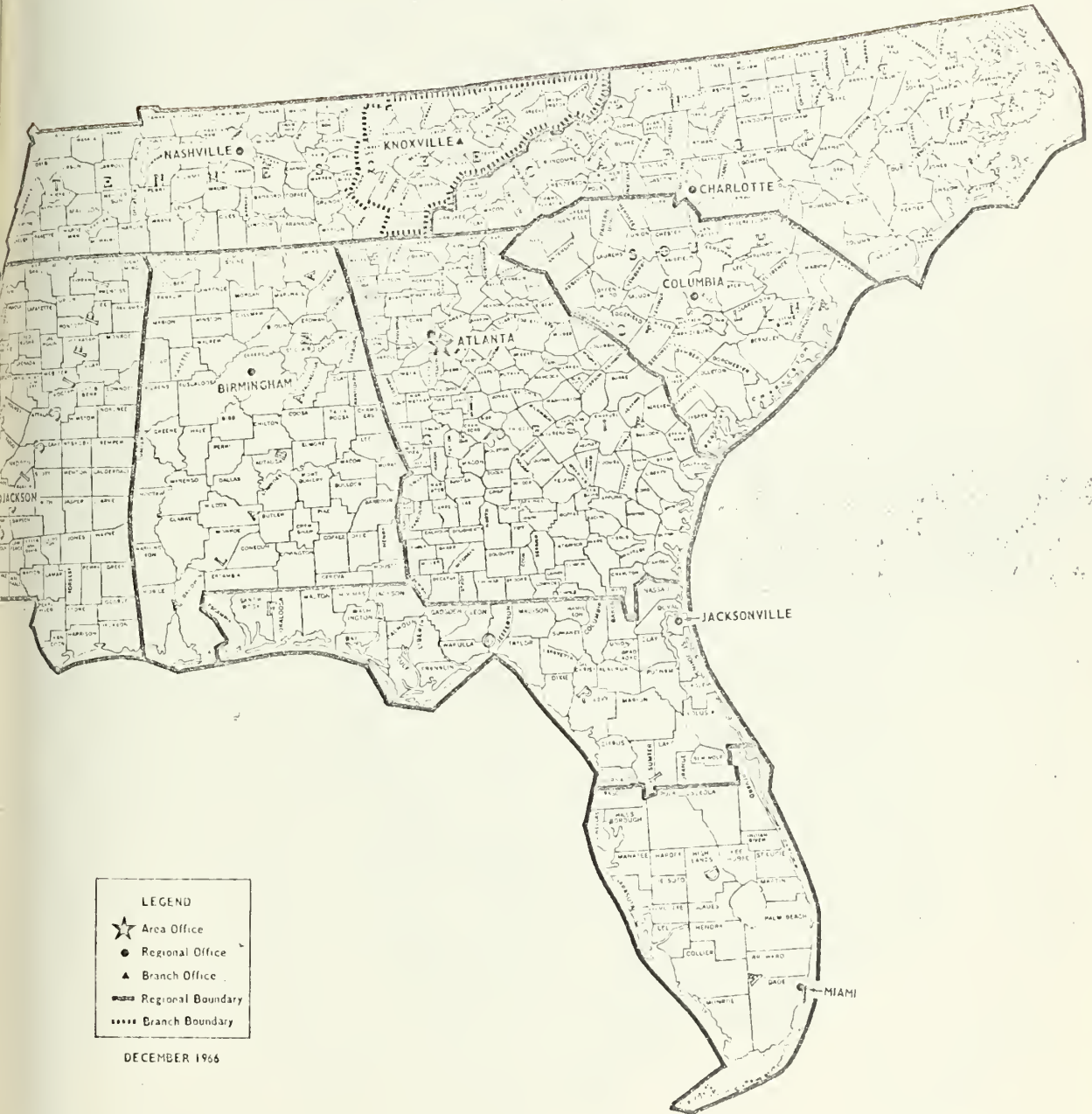


DECEMBER 1966



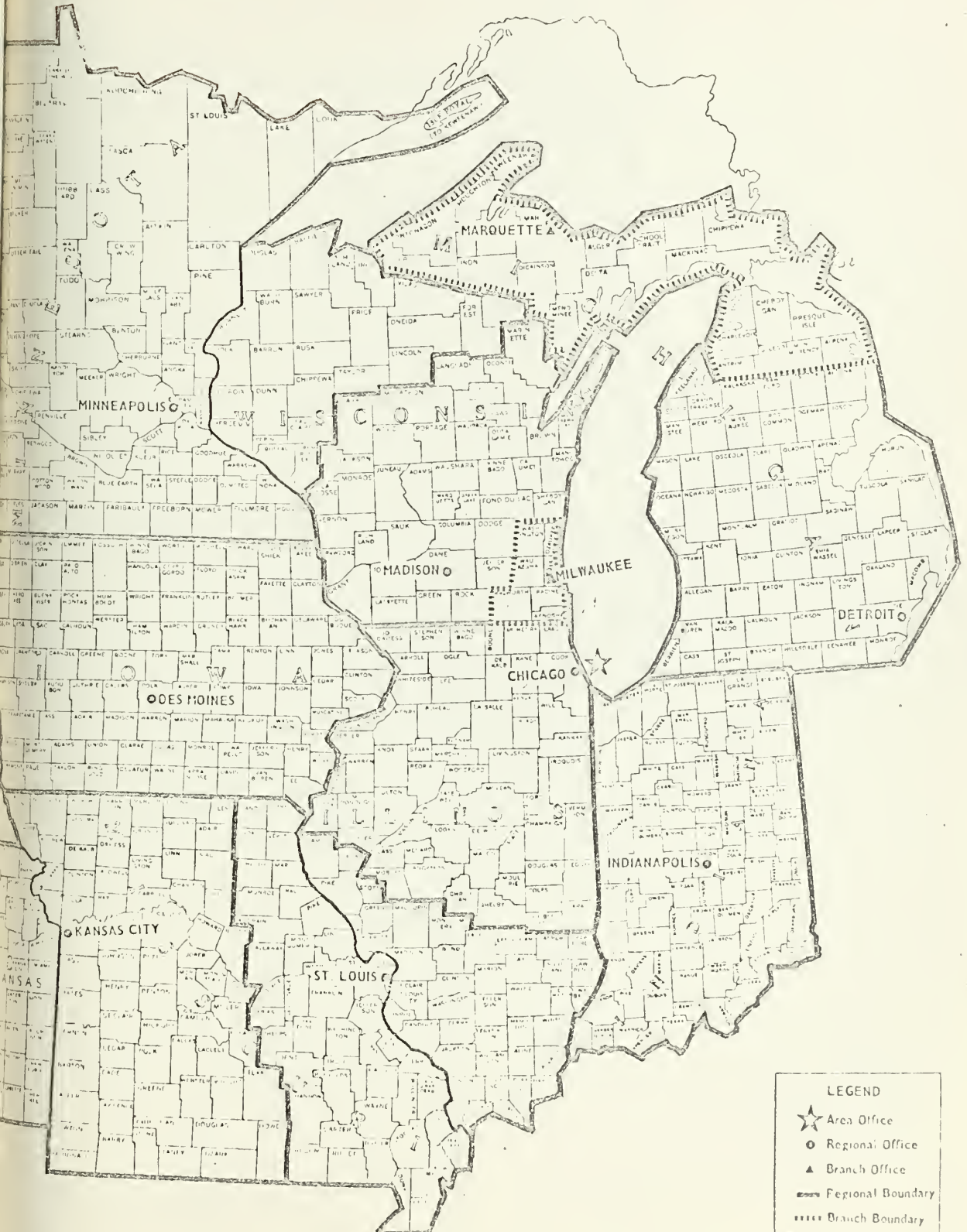


### SOUTHEASTERN AREA





# MIDWESTERN AREA

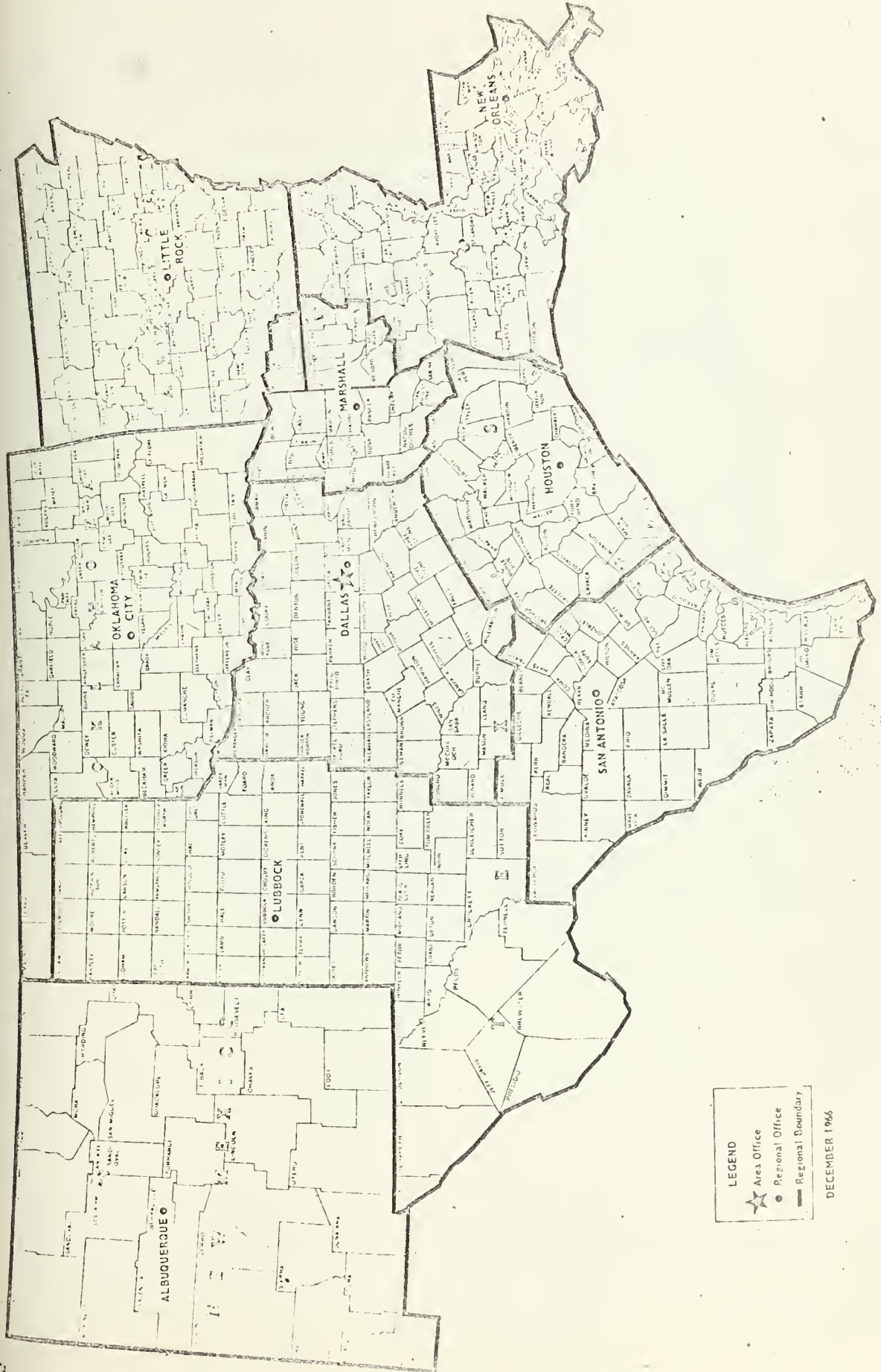


**LEGEND**

- ★ Area Office
- Regional Office
- ▲ Branch Office
- Regional Boundary
- Branch Boundary







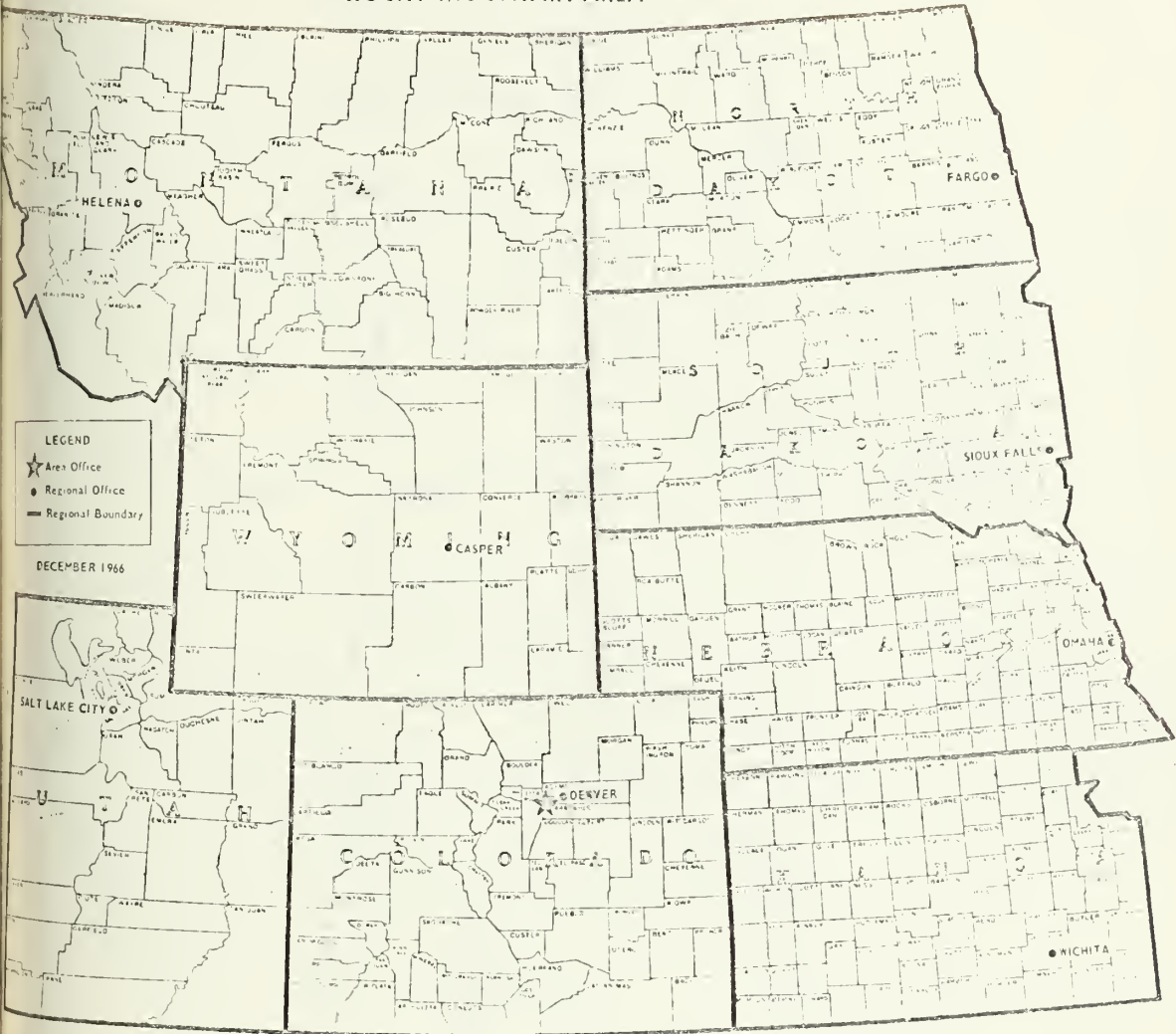
**LEGEND**

- ★ Area Office
- Regional Office
- Regional Boundary

DECEMBER 1966

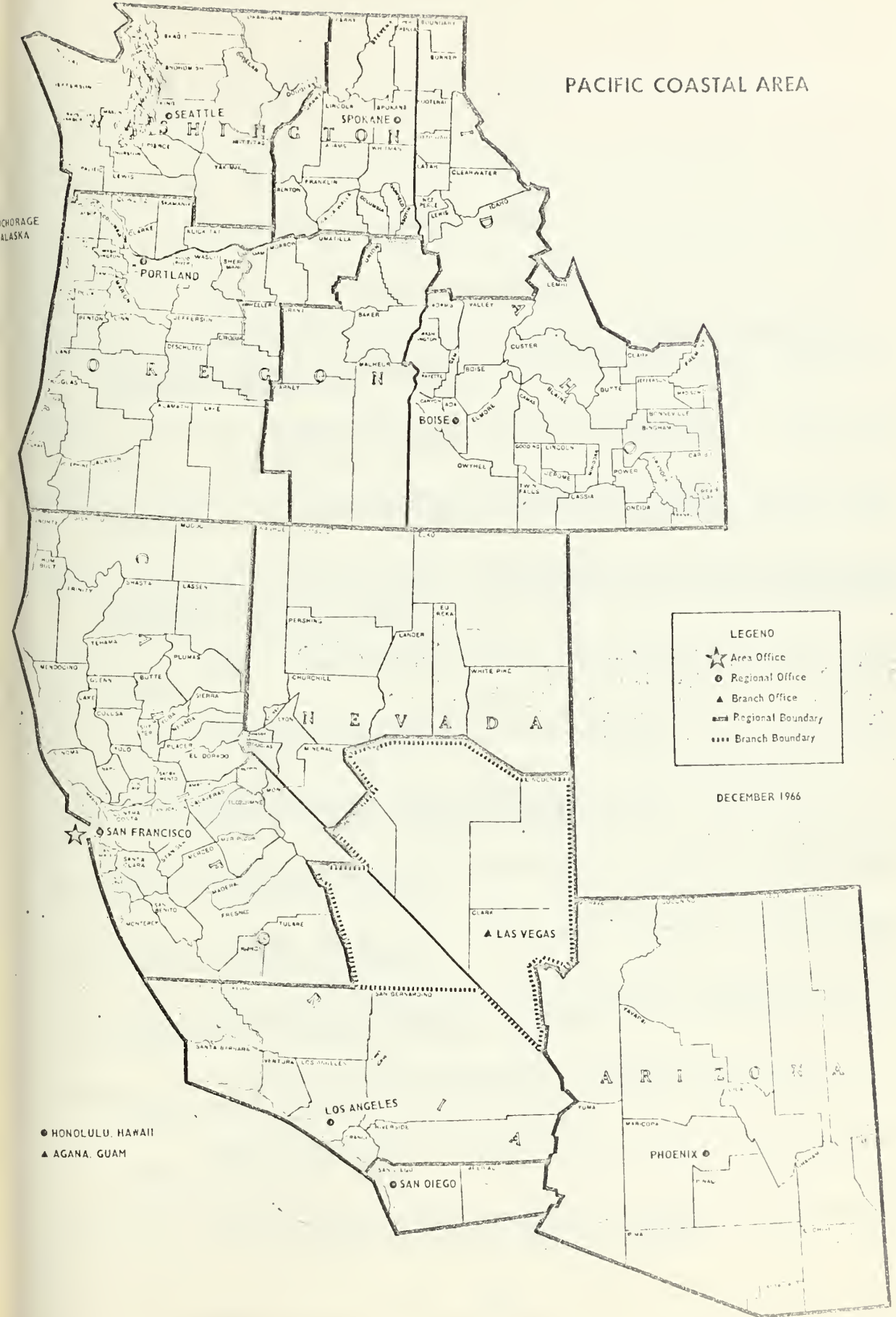


### ROCKY MOUNTAIN AREA





PACIFIC COASTAL AREA



**LEGENO**

- ★ Area Office
- Regional Office
- ▲ Branch Office
- - - Regional Boundary
- ..... Branch Boundary

DECEMBER 1966

○ HONOLULU, HAWAII  
 ▲ AGANA, GUAM



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