

Examining the Effects of Set Aside Policies on Competition and Growth for Small and Mid-Sized Suppliers

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TREVOR L. BROWN & AMANDA M. GIRTH

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Research Motivation

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- Supply-side of federal acquisition
- Small business and *not* small business
- “Benefit cliff” for small businesses growing to the middle market

Industry Attention

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Project Research Questions

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- Is there a small business set aside “benefit cliff”?
- What explains firm behavior around the cliff?
- What policy tools optimize the balance between securing value and equal opportunity?

Research Frame

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- “Policy ambivalent” preferences - aspirational, goal-oriented policies (Kidalov & Snider 2011; Snider, et al. 2013)
 - Federal agencies: 23% prime contracts to small business
- Competitiveness of public service markets
 - Balance different, and sometimes competing, purchasing goals
 - Narrows pool of suppliers and limits the range of cost, quality, and delivery options
- Small and mid-sized business growth
 - Firm lifecycle and entrepreneurship
 - Credit, external financing, firm age, size, state subsidies, managerial factors (Barbero, et al. 2011; Becchetti & Trovato 2002)

Project Research Design

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1. Track the performance of 1,025 suppliers over a 10-year period (FY2005-FY2014)

- Random selection of firms with SB set aside contract action in 2005
- Stratified 60% w/DOD
- Mix of products and services

2. Interviews

- Small businesses
- Mid-sized suppliers
- Federal procurement officials

• Data

- Sources: FPDS-NG and Dun & Bradstreet
- Unit of analysis: Supplier/year
- Aggregate FPDS-NG data
- D&B annually reported

Study Data & Method

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Sample Data

- Small businesses in 2005
 - 721 small businesses that stayed small through 2014
 - 46 small business that grew to mid-sized
 - 55 small businesses that grew to mid-sized and returned to small

Method

- Exploratory
- What are the differences between groups?
 1. Stayed small
 2. Grew to mid-sized
 3. Grew to mid-sized, returned to small
- Pairwise comparison of means of **firm attributes** and **federal contracting portfolios**

Data Attributes

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Firm Characteristics

- Credit rating
- Minority ownership
- Woman ownership
- Firm age (log)
- Lines of business
- No. DUNS family (log)
- No. of employees (log)
- Annual sales (log)
- Efficiency

Contract Portfolio

- Agency diversity
- NAICS diversity
- PSC diversity
- Contract actions (log)
- Contract actions – IDV (log)
- Ave. number offers (log)
- Pct. not set aside
- Pct. full and open

Preliminary Findings

Independent Variable	Pairwise comparison		
	<i>Mid vs Small</i>	<i>Returned small vs Small</i>	<i>Returned small vs Mid</i>
Credit rating	↓	↓	
Minority ownership			
Woman ownership	↓	↓	↑
Firm age (log)			↑
Lines of business		↑	↑
No. DUNS family (log)	↑	↑	↓
No. of employees (log)	↑	↑	
Annual sales (log)		↓	↓
Efficiency	↓	↓	↓
Agency diversity	↑	↑	↓
NAICS diversity	↑	↑	↑
PSC diversity	↑	↑	↑
Contract actions (log)	↑	↑	↑
Contract actions – IDV (log)	↑	↑	↓
Ave. number offers (log)		↑	
Pct. not set aside	↑	↑	
Pct. full and open	↑	↑	

Preliminary Findings

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Transition to middle market

- Corporate relationships
- Woman-ownership
- Credit
- Efficiency
- Diversity – agency, product
- Competition – f/o, set aside, but also IDV

Lasting transition?

- Fewer woman-owned
- Younger
- More corporate relationships
- Fewer set aside contracts
- Mid-range/tipping point?
 - Diversity- agency, product
 - Efficiency

Emerging Interview Patterns

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- Strategic decision to stay small or jump into the middle market
- Firms that jump tend to be focused on profit growth
- Firms surviving in the middle market....
 - Diversity of agencies (+ attendant relationships)
 - Diversity of products/services (pre-jump)
 - Trusted partnerships
 - Made significant internal infrastructure investments before jump in

Next Steps

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- **Conduct multivariate analysis**
 - Patterns
 - Determine appropriate methods
- **Additional interviews, integrate**
- **Assess policy implications/options**

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