

RICARDO MARTÍNEZ, CHAIRMAN OF THE BOARD
MARYLAND HISPANIC CHAMBER OF COMMERCE

Testimony to the Committee on Small Business & Entrepreneurship

Dear Senator Kerry and Members of the Committee:

My name is Ricardo Martinez. I am the Chairman of the Board of the Maryland Hispanic Chamber of Commerce. The Maryland Hispanic Chamber of Commerce has been in existence for over 20 years and has and continues to be a recognized voice of the Maryland Hispanic Business Community. I am also the owner of a project management and technical services firm, doing business with the federal government, with 65 full time and over 75 part-time and consultant employees. Our firm is in its 10th year of business and on pace achieve close to \$14 million in revenue this year.

A particular focus of our Chamber is federal contracting. The federal government is the largest employer in our state. As such we believe that Maryland Hispanics need to clearly understand the requirements and be equipped with the physical and intellectual tools to successfully compete in the federal market place. Our chamber collaborates with federal and state organizations as well as with other Hispanic and non-Hispanic Chambers and business organizations to bring the knowledge and tools through workshops, mentoring and networking to anyone aspiring to do business with the federal government.

I would like to bring attention to a number of issues impacting the Maryland Hispanic Business Community, which is for the most part, a subset of the Maryland Small Business Community:

1. Bundling of Contract Scope and Requirements

- a. **Contract Scope:** The federal government is just recently paying serious attention to the practice of lumping together (bundling) what could be several or perhaps many small and discrete scopes of both technical and administrative scopes of work. Often this has the impact of both discouraging quality small companies to respond to the request or encourage less qualified and perhaps naïve small companies to respond. Requests for interest or information sometimes precedes such requests for proposals in order to “prove” that there are no qualified small businesses that can do the full scope. Sometimes bundled opportunities are indeed set-aside for small businesses only to be cancelled after the agency (or sometimes, the Government Accountability Office (GAO)) determines the work to indeed be too large for small business. At times the decision to finally award or cancel procurement comes after many months of a tortuous bid and proposal process that can cost millions of dollars to the bidding small

businesses. The impact on a given sector of small business due to a protracted or cancelled procurement can be financially and morally devastating to many small businesses.

b. **Requirements:** Bundling of requirements such as unreasonable expectations for security clearances, specialized technical expertise, incumbent knowledge, internal knowledge of agency operations among others, is a way discouraging or disqualifying small businesses. Security clearances (particularly after 9/11) are, understandably, harder to obtain and to retain. (Many clearances take over a year to issue from the time of submittal to the agency.) The problem is that large contractors have the distinct advantage of being able to carry clearances on multiple or long term contracts. Small companies generally don't. Thus when a large contractor loses a contract that required a clearance, that contractor can simply have the clearance sponsored on another contract that requires clearances. This is a great disadvantage to small businesses desiring to work with a number of Federal organizations that deal in high tech, defense and national security fields. Many small businesses are not able to hold on to valuable clearances and as such find obtaining similar work in the future more difficult to get. Small businesses have reported that RFPs with size standards of \$6 million or less have come out with requirements for up to 40 personnel with security clearances to be available on day one of the contract. The desire to deal with only one prime contractor forces either a clear advantage to the incumbent large company that is teamed up with a favored small business or the creation of elaborate and at times inefficient small business teaming arrangements. Either way the government loses out on bringing in a broader talent pool through multiple contracts to small business.

2. **Lack of Micro Opportunities:** Most, if not close to all small businesses start out as micro-businesses, that is, businesses averaging (over a three year period) less than \$2.75 million per year. However, to get to do even this much business requires contract opportunities that allow a start-up small business owner to prove his/her capabilities to a federal manager willing to provide an opportunity. Many of our members have stories of how "was it not for the wisdom and foresight of a particular manager" they might not have had the opportunities needed to succeed later on. My own company was started with a \$15,000 subcontract to a large prime contractor that turned into over \$10,000,000 of continuing business over the past 9 years. It is important to understand that the real decision-makers for these types of opportunities are not high level managers, SABDU or even procurement officials. They are the technical managers (sometimes called Contract Officer Representatives (COR), Contract Officer Technical Representatives (COTR), Buyers Technical Representatives (BTR), etc.). Access to these individuals can be obstructed by a labyrinth of offices who are either not knowledgeable enough

of the programs, or are focused on much larger procurements. Once accessed these managers need to be sufficiently trained to understand the best mechanisms for procuring the services of a small company.

- 3. Lack of oversight of large business (prime contractors):** Agencies have relied on the subcontracting to small businesses through large prime contractors. This is accomplished through specific small business set aside requirements that attach penalties or rewards for small business award performance. These large contractors (sometimes called Management and Operating (M&O)) are being relied on to fairly and ethically carry out the small business contracting objectives of the federal government. However, the performance metrics used by the federal government don't evaluate or hold to account the sometimes questionable behavior of some M&Os. In one instance, an 8(a) SDB had been awarded a competitive contract to provide cost estimating and project controls only to learn after several months of frustration, that sole-source contracts (for the same scope) were being awarded to non-8(a) businesses with close ties to procurement and technical managers. After several attempts to work with the prime to correct the matter, the small 8(a) decided to focus business development elsewhere rather than be "blackballed" by a large company.

Another example is the practice (particularly in the technical services and high tech arena) of large prime contractors proselytizing the employees and ideas of small subcontractors. This practice appears to be rampant. There are exceptions but this a common complaint among small businesses. Basically the large prime garners what is close to a monopoly on the business in a given area and issues a request for proposal. Small businesses are lured to give their best ideas and commit to provide their best and brightest individuals for the work. As time goes on and the small business performs well, the prime determines that those services will be performed by their own employees. Often the capability sought is not within the prime's organization and pressure is placed on the small company's employee to either 1) accept employment within the large company, 2) face moving to another location where the small company may have work or 3) become unemployed. Some small companies have reported large companies unabashedly offering jobs to employees of small businesses during the delivery of solicited or unsolicited proposals. Why so some large businesses do this? In areas where large businesses enjoy virtual monopolies over the work, the answer is because they can.

The intent of this testimony is not to recklessly impugn the reputation of the federal government or its large contractors. My own company has benefitted greatly from subcontracting opportunities with several large government primes. The examples given are from real life experiences of small businesses. There are other issues, such as access to affordable capital, rising health care costs, and cuts to the resources (systems, training and personnel) within the Small Business Administration and procurement personnel that also weigh heavily on the prospects for small business contracting in the

federal government. It can be said without hesitation that small businesses do not need (or should get) a lowered bar for performance. Small businesses do however deserve and should get the benefit of a level playing field.

It is a privilege for me to be addressing this committee. I truly believe that despite its shortcomings, the federal procurement process is one in which many small businesses have and will continue to thrive. However, we are seeing a transformation of the small business community to include a larger variety of products and services than ever before. With this change is an obligation to better understand the old and emerging challenges facing small business. Our nation relies on the energy and intellectual capital of our small businesses. We in the various chambers and other business organizations stand ready to partner with our government to lead the way through reformed federal procurement and business practices in harnessing the power of small business.

Sincerely,

Ricardo Martinez, Chairman
Maryland Hispanic Chamber of Commerce
President/CEO Project Enhancement Corporation