



## **SBA Uses Old Data and an Old Formula to Determine Business Size**

By Ann Sullivan

What is a small business? Should it depend on how many employees you have, or what kind of revenues you bring in? Does a small business look different in varied industries and places?

These are the questions the Small Business Administration (SBA) is tasked to answer through the process of creating size standards. SBA devotes an office to deal just with this issue, headed by Dr. Khem Sherma. These standards matter – both for getting loans and for winning government contracts. To bring it a little closer to home, the Women’s Procurement Program that WIPP has long supported, requires the participating women-owned businesses to be small. And small is defined by this office at SBA.

As I participated last week at a roundtable discussion with the House Small Business Committee and the SBA on this topic, it became clear that SBA is updating the size standards for the 1,141 industry codes with old data and an outdated formula. Seeing the effect these standards have on companies that want public sector business, the SBA ought to be getting the numbers right.

The SBA uses Census data from 2007 to determine industry sector performance and size. Kind of disheartening since the 2013 economy does not look like the 2007 prerecession economy. It also uses a complicated economic formula to determine and weigh industry factors—a formula, which doesn’t appear to have changed much since the methodology was introduced in 2009. These size standards – and I can’t overstate their importance – simply are not factoring in the new workforce of independent contractors, self-employed consultants and our transition away from the 9-to-5 office environment. Representative Richard Hanna (R-NY), who chaired the roundtable, observed that updating these two criteria to measure size standards would make the SBA’s job harder but serve small businesses better.

I couldn’t agree more, Congressman. Good decisions have to start with good data. And the onus should be on the SBA to find the best data on industry sectors, not the other way around. The industry participants in the roundtable on size standards seemed to welcome the idea of a more proactive SBA. They welcomed the suggestion that SBA engage the industry at the front end of the decision-making rather than the backend. In government policy, numbers drive everything. It seems to me that the women businesses in this country deserve decisions derived from good data—not old data based on an old formula.