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Report to A. Vernon Weaver, Administrator, Small Business Administration; by Henry Eschwege, Director, Community and Economic Development Div.

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The Small Business Administration's (SBA's) management assistance program was surveyed at the San Francisco District Office to evaluate the quality of the assistance rendered in helping persons to succeed as business owners. The survey was terminated because sufficient financial data on management assistance clients were not on file although borrowers' financial statements are required under the loan agreements signed by the business owners. Because it has not obtained financial information from its management assistance clients, SBA lacks the means to evaluate its management assistance efforts and the needs of its clients for follow-on assistance. Until more financial information is obtained and analyzed in a systematic manner, the management assistance program cannot achieve its full potential. SBA should pursue the collection and analysis of the business data necessary to identify management needs of clients and to measure the effectiveness of assistance provided. (RRS)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-114835

March 15, 1978

The Honorable A. Vernon Weaver
Administrator, Small Business Administration

Dear Mr. Weaver:

We recently surveyed the Small Business Administration's (SBA's) management assistance program at the San Francisco District Office. The principal objective of the survey was to evaluate the quality of the assistance rendered in helping persons succeed as business owners. This evaluation was to be based on an analysis of the financial condition of a random sample of 58 businesses before and after receiving management assistance. These business owners were also SBA borrowers.

The survey was terminated and plans for a broader review of the program canceled because sufficient financial data on management assistance clients was not on file at the district office, although borrowers' financial statements are required under the loan agreement. However, we are providing you with detailed information concerning our survey so that needed improvement in management can be initiated.

Although we are not able to comment on the overall effectiveness of SBA's management assistance program, our work indicated that, because it has not obtained financial information from its management assistance clients, SBA lacks the means to evaluate its management assistance efforts and the need of its clients for follow-on assistance. This is especially important since the limited financial data obtained indicated that many business owners who received management assistance did not succeed. Several of our prior reports have discussed these problems and, although our work was limited to one office, the problems are of a systematic and continuing nature.

CED-78-64
(07771)

BACKGROUND

SBA operates a diversified program of management assistance to strengthen the operations of small firms. This program is operated in SBA's district offices by management assistance divisions, with assistance from paid consultants and volunteer groups. A list of SBA's management assistance resources and their functions is shown in enclosure I.

Our survey focused on the assistance provided by the Call Contractor and Small Business Institute programs, which have been SBA's principal source for indepth management analysis and counseling. SBA requires that the terms of all business loans include a provision that borrowers regularly submit financial statements. A balance sheet and profit-and-loss statement is required annually on loans under \$50,000, semiannually on loans over \$50,000, and more frequently in instances such as on loans to new businesses. The procedures further provide that all borrowers who fail to submit financial statements will receive a computer-generated reminder 30 days after the statement due date. The field office receives a copy of the reminder for followup on those borrowers who fail to respond to it. The SBA procedures further provide that statements should be analyzed by loan servicing assistants and, if adverse trends are evident, the borrower should be referred to a loan specialist to determine whether referral for management assistance or other action is needed.

UNCERTAIN EFFECTIVENESS OF MANAGEMENT ASSISTANCE

An overall analysis of the effectiveness of management assistance provided by SBA's San Francisco District Office could not be performed because the office had not collected the financial statements essential for this analysis. However, the limited amount of financial information available indicated that many of the businesses assisted did not succeed. This emphasizes the need to collect data as a means of tracking management assistance clients.

We selected for analysis 58 SBA borrowers who were provided management assistance in 1974 by call contractors and Small Business Institute participants. We requested financial information for 1973 through 1975 from SBA and from the borrowers. Our objective was to measure the success of these firms before and after assistance, based on their gross sales, net profit, net worth, and comments in the clients' files.

On the basis of information in district office files or obtained directly from the firms, with the assistance of SEA district office officials, we classified the 58 firms as shown below:

<u>Business status (note a)</u>	<u>Number of clients</u>	<u>Percent</u>
Self-sufficient	7	12.1
Not self-sufficient	5	8.6
Out-of-business	18	31.0
Business sold	4	6.9
Undeterminable	<u>24</u>	<u>41.4</u>
Total	<u>58</u>	<u>100.0</u>

a/The criteria used to classify businesses are described in enclosure II of this letter.

Only 4 of the 58 firms regularly submitted financial statements to SBA. Thirty firms submitted financial statements in fiscal year 1973, 19 firms in fiscal year 1974, and 10 firms in fiscal year 1975.

The 18 firms classified as out-of-business failed within 2 years after receiving SBA management assistance. Five of the seven firms classified as self-sufficient appeared to be self-sufficient before SBA assisted them.

The large number of firms not achieving self-sufficiency and going out-of-business after participating in SBA's management assistance program suggests a need to determine the effect of assistance provided and whether additional assistance should be given to the firms.

SBA does not systematically monitor the status of its clients or measure the effectiveness of the counseling provided. Program reviews have been conducted on an ad hoc basis; however, program assessment, in terms of the number of assisted businesses which become successful, is not possible because of the lack of data.

PRIOR GAO REPORTS

We have commented in several prior reports on how SBA's management assistance efforts were hampered by inadequate financial information on present or potential management assistance clients.

1. In our April 1969 report to the Congress "Survey of Economic Opportunity Loan Program Shows Need for Improved Administration and Increased Effectiveness" (B-130515), we reported that SBA had not improved the managerial skills of small business concerns receiving financial assistance under the Economic Opportunity Act as intended. We also found that SBA was not making timely visits to borrowers after loan disbursement to determine what assistance was needed in the management of their businesses. At the time, the SBA Administrator stated that it was not necessary to act on our recommendation that SBA periodically obtain financial and economic data from the borrower, as a system had already been implemented.

2. In our November 1973 report to the Congress "Limited Success of Federally Financed Minority Businesses in Three Cities" (B-149685), we stated that loan servicing was not being done and that SBA was often not informed of their borrowers' operational and financial status. We concluded that management assistance was often not effective, primarily due to the fact that timely assistance was not provided because of inadequate loan-servicing activities.

We recommended that SBA (1) improve the effectiveness of management assistance provided to minority businessmen and (2) develop an information system which would measure accomplishments in terms of successful minority businesses established.

SBA said that it planned to establish a system to make measuring success possible. However, these plans were subsequently abandoned.

3. In our February 1976 report to the Congress on the 7(a) Loan Program, we pointed out that, after loans were made, SBA did not act effectively to increase the chance of borrower success and loan repayment. We found that SBA's system for monitoring its clients was not being fully utilized, and field visits were often not made. We also found that SBA had received financial statements for only 15 percent of the loans in our sample of 980 loans.

We recommended that SBA (1) require borrowers to submit financial statements and consider computerized analyses of these statements, (2) evaluate the impact of management assistance to identify areas needing improvement and demonstrate the value of assistance to borrowers, (3) establish a system for determining whether additional assistance is needed

to carry out recommendations, and (4) increase efforts to determine a borrower's need for management assistance at the time of loan approval.

SBA responded that it (1) was implementing a computerized system for reminding borrowers when financial statements are due, (2) had established a unit within the Office of Management Assistance to evaluate management assistance programs, (3) was, through new procedures, encouraging its management assistance offices and SCORE volunteers to assist clients in implementing management assistance recommendations, and (4) was testing new procedures for identifying management assistance needs at the time of loan approval.

CONCLUSIONS

In comparing the results of our work in the San Francisco District Office with findings in prior GAO reports, it was noted that the same problem persists--lack of information regarding the financial status of SBA's clients. We still believe that this information is needed for SBA to measure the effectiveness of the management assistance it provides. Without it, SBA cannot identify firms having problems or monitor the status of firms that received assistance, so that their progress can be assessed and additional help given when it is needed. The importance of effective management assistance is described in an SBA publication explaining the program:

"The need for [management] assistance is pointed up by failures that occur in the small business community every year. It is estimated that managerial deficiencies cause 9 out of 10 business failures. This represents a tremendous loss to the nation's economy. Many of these business failures could have been avoided had the owners received management assistance in time. A major objective of the SBA is to remedy this situation. Through the facilities of the Office of Management Assistance, SBA works to improve and strengthen the management capabilities of small business men and women."

We recognize that SBA has attempted to improve the management assistance program in recent years. To achieve better program results, more effort must be made to monitor the financial condition of firms. Until more financial

information is obtained and analyzed in a systematic manner, the management assistance program cannot achieve its full potential.

RECOMMENDATION

We recommend that SBA pursue the collection and analysis of the business data necessary to identify the management needs of its clients and to measure the effectiveness of assistance provided. SBA should consider establishing punitive measures or incentives to encourage the receipt of this data in a timely manner.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the four committees mentioned above; the applicable legislative committees; and the Acting Director, Office of Management and Budget.

Thank you for the cooperation given to our staff.

Sincerely yours,



Henry Eschwege .
Director

Enclosures - 2

SBA MANAGEMENT ASSISTANCE RESOURCES

The following are the resources available to SBA district offices in their operation of the management assistance program:

- SBA staff. An assistant district director for management assistance supervises the use of management assistance resources at each district. SBA employees, known as business management specialists, advise small businesses and may call upon the assistance of volunteers and paid consultants.
- The Call Contract program. This program employs consultants to provide management and technical assistance to small business owners who are eligible under the Economic Opportunity Act of 1964.
- Small Business Institute program. This program provides faculty-supervised management counseling to small businesses by university graduate and undergraduate students.
- Service Corps of Retired Executives. This is an organization of retired business executives who volunteer their services to help small business owners solve their problems.
- Active Corps of Executives. This is an organization of volunteers who are active executives in industry, trade associations, educational institutions, and the professions.
- The professional associations program. Under this program members of professional associations, such as the National Association of Accountants, provide management and technical assistance to small businesses on a voluntary basis.
- University Business Development Centers. This is a pilot program created to establish a partnership between a university, the Government, and the private sector for the delivery of services to small businesses. The program will include contributions from several Federal agencies. This program began in fiscal year 1977 and is to be evaluated at the end of 3 years.

Management assistance can also be provided through counseling by SBA personnel, volunteer groups, consultants, or through management training in prebusiness workshops, courses, conferences, and clinics.

METHOD USED BY GAO TO CLASSIFY THE CONDITION OF
MANAGEMENT ASSISTANCE CLIENTS

Each of the 58 firms we reviewed was classified as self-sufficient, not self-sufficient, out-of-business, sold, or undeterminable on the basis of the following criteria.

Self-sufficient:

- Operating profitably with a positive net worth.
- Having a history of sufficient sales to sustain profitable operations.

Not self-sufficient:

- Operating at a loss and having a deteriorating net worth.
- Operating at a net profit but not capable of providing an income sufficient to sustain a modest standard of living. (Based on poverty statistics as reported by the Bureau of the Census.)

Out-of-business:

- Determined on the basis of information provided by SBA or indicated by inability to contact business. (Telephone disconnected and/or no longer in operation at last known place of business.)

Sold:

- Based on information provided by SBA.

Undeterminable:

- Clients contacted but never sent requested financial statements.