

MAXIMIZING ORGANIZATION AND LEADERSHIP IN A FEDERAL  
AGENCY TO FULFILL ITS STATUTORY MISSION: RESTRUC-  
TURING OF THE SMALL BUSINESS ADMINISTRATION

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT,  
AND GOVERNMENT PROGRAMS  
OF THE  
COMMITTEE ON SMALL BUSINESS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

WASHINGTON, DC, JULY 16, 2002

**Serial No. 107-65**

Printed for the use of the Committee on Small Business



U.S. GOVERNMENT PRINTING OFFICE

81-576

WASHINGTON : 2002

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For sale by the Superintendent of Documents, U.S. Government Printing Office  
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**TUESDAY, JULY 16, 2002**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT  
AND GOVERNMENT PROGRAMS,  
*Washington, DC.*

The Committee met, pursuant to call, at 2:05 p.m. in Room 2360, Rayburn House Office Building, Hon. Jim DeMint (chairman of the Committee) presiding.

Chairman DEMINT. Let us get started. First, I want to thank everyone for coming today, particularly our witnesses. We are looking forward very much to hearing from you.

This is an important hearing. It is important to get what we have to say on record. It is important to follow up. This Committee is all about strengthening the small business fabric of this nation. Small businesses create opportunities for millions of entrepreneurs. It is the economic engine of our whole economy. Small businesses have been the way that minorities and women have broken into ownership of businesses themselves.

And the Small Business Administration was created to make sure that that happens, and I want to make sure, as the little Committee that has oversight over SBA, that we do everything we can to make sure that the agency addresses the needs of start-up companies and of helping small companies succeed.

And to do that, we have to be focused, as a Committee on the needs, the obstacles, everything that could prevent the success of these businesses. We need to make sure that the Small Business Administration is a part of that.

And over the last several months we have had GAO take a close look at SBA, and they have submitted an excellent report for us to analyze what the agency is doing. SBA has responded to that with a restructuring plan. I think to reshape its mission, its organization structure to make that happen, and we are looking forward today to seeing how that falls together.

My hope is that the outcome of this hearing will be that both sides of the aisle on this side of the desk can be supportive of this restructuring plan, and that we can get the support we need to make sure that it happens.

Let me just quickly introduce our witnesses and then I would like Ms. Millender-McDonald to make a few opening statements as well.

We have Ms. Davi D'Agostino, did I do that right, Davi? She has again been instrumental in making sure that we had a complete analysis of SBA. She has been gracious enough to come by my office to brief me and my staff on what she thought of the agency and the restructuring plan, so I really very much appreciate your cooperation.

And Dr. Lloyd Blanchard, who is the Chief Operating Officer of SBA, has also been very cooperative and responsive to our questions and putting this whole hearing today, so I very much appreciate you being here to present your restructuring plan.

We have Mr. Herbert Jasper here to comment on management and leadership, and how that relates to what we will be seeing, and you are with the National Academy of Public Administration.

We also have General Anderson, the president of Defense Acquisition University, to make his comments on the needs of SBA and the restructuring plan and whatever observations you have on leadership and how that applies to what we are trying to do today.

So let me yield a moment to Ms. Millender-McDonald, our ranking member.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman, and I would like to also echo the thanks to all of our panelists for being here today, and I do know that we will glean a lot of important information from your presentation.

Mr. Chairman, as the Ranking Member of the Subcommittee on Workforce, Empowerment and Government Programs, I am pleased to bring today's hearing to the forefront as we explore proposed plans by the Small Business Administration to undergo management restructuring.

Those of us who serve on this Committee often communicate a widely-held impression that small businesses are the driving force of our economy. Based on this reality, the various program administered by the Small Business Administration constitute the engine for that driving force. And as with any machine from time to time, you need to perform a tune up. Today, we will be embarking on an agency tune up.

It is important to provide legislative input to the SBA because, as we start the twenty-first century, the agency and our nation's small businesses are at a critical juncture. We are witnesses a constantly evolving technological revolution. The revolution has created dynamic changes during the past decade, and has delivered such tools as the internet, hand-held computers and wireless phones, with technology that was previously only available to expensive equipment.

As profound changes have occurred in the marketplace, so too have major changes been realized in the legislative arena, especially in the arena of financial systems. The elimination of legislation that builds firewalls between banking, insurance and investments has drastically altered the ability of entrepreneurs to access capital. Given changes in the laws to reflect time realities in the marketplace, it makes sense that SBA's policies must also evolve.

Events over the past decade have created and enhanced several SBA programs, including some that relate to new markets' initiatives, micro loan programs, and the creation of women's business

centers. Therefore, a logical extension of these recent revelations should be the re-tool of SBA's management processes.

It is therefore imperative that changes to SBA practices be undertaken, particularly in light of a GAO study that the Chairman just alluded to that sighed a cumbersome organizational structure and a failure to adequately communicate with the public and other organizations.

In response to that report the administration outlined a plan to revise and re-tool SBA in its F.Y. 2003 budget, with the goal of providing better service to our nation's entrepreneurs. However, I want to emphasize that as we consider the cost to implement—restructuring for the agency, we must not lose sight of the fact that the dollars being allocated for administrative functions could be applied to support problematic initiatives that would yield substantial benefits for small business.

As we engage in this Committee's role of ensuring that the restructuring is achieved systematically and comprehensively, I believe it is important to allow the agency to evolve and fulfill its mission without sacrificing its institutional programs. The programs have become and are as fundamental aspects that support America's business.

A recent GAO report clearly stated that SBA has lost its focus. Therefore, it is critical that any restructuring plans first and foremost create a clear definition of the agency's mission. To proceed without an understanding of what needs to be accomplished will be an unwise and inefficient use of resources.

Once the mission statement is developed, the agency must reconcile the skills base of its SBA workforce to accommodate its mission. This is an issue that is particularly important to me because I have concerns about the readiness of federal agencies to respond to the inevitable loss of skilled employees who are nearing the age of retirement.

As a matter of fact, I introduced H.R. 2403, the Employment Readiness Act, that requires federal agencies to conduct an assessment of their future needs as skilled managers prepare to retire over the course of the next 15 years.

It is against this backdrop that we must look closely at the efficacy of proposed plans by the SBA to restructure. It is vital that an assessment is conducted of the skill level of the current workforce in order to assist the SBA to develop agency policy that will result in smooth and seamless organizational transition.

I want to emphasize that restructuring can only occur to the degree that there is adequate funding to support stated administrative and problematic goals and objectives. The fact that the SBA services 25 million small businesses that include minorities, women, and disabled veterans highlights the need for making sure that management programs can indeed respond to the growing needs of a diverse constituency.

One program that truly needs organization and financial support is women business centers. I offered an amendment in Committee to increase authorization—appropriations for these centers. Unfortunately, the bill reported out of Committee. H.R. 3230 has not been considered yet by the House. I hope we can do something about that.

In closing, Mr. Chairman, we are clearly at the beginning of a very complicated process that involves the restructuring of SBA, and I look forward to working with you and other members of this Committee to make sure that we are vigilant in our duty as Committee members to support the SBA and the constituents that it serves.

Thank you, Mr. Chairman.

Chairman DEMINT. Thank you, Ms. Millender-McDonald.

We are going to go a little out of the ordinary today on our testimony. I have asked Ms. D'Agostino to take the time she needs to present the analysis of SBA. I have also asked Dr. Lloyd Blanchard to take more time than our normal five minutes to present the restructuring plan. But then we will try to hold Mr. Jasper and General Anderson to about five minutes, if that is possible.

So we will begin—excuse me—to dim the lights. I have been told that this is being broadcast over the internet, at least the audio part, so make sure your microphones are as close as possible in making your presentation.

Davi.

**STATEMENT OF DAVI M. D'AGOSTINO, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GENERAL ACCOUNTING OFFICE**

Ms. D'AGOSTINO. Mr. Chairman and members of the Subcommittee.

Before I begin I would like to recognize the GAO team members who performed the work on the testimony.

[Pause.]

Ms. D'AGOSTINO. I am sorry. I would like to recognize Susan Campbell, Katie Harris, Kay Kuhlman and Max Kalhammer who have worked on this testimony, and on our SBA work as a whole.

I am pleased to be here today to discuss GAO's previous work on the Small Business Administration's organizational alignment and then how SBA's five-year transformation plan prompted by the president's management agenda proposes to respond to the management challenges GAO, the SBA's inspector general, and the Office of Management and Budget have identified.

By organizational alignment, we mean the integration of an agency's organizational components, activities, core processes and resources to support efficient and effective achievement of its mission and outcomes.

The SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of the nation's small businesses and by helping businesses and families recover from natural disasters.

Previous GAO reports and testimony have highlighted organizational alignment and human capital challenges SBA faces in achieving its mission and in transforming from an agency that makes and services loans to one that primarily reaches out to and helps its clients—small businesses—and oversees its private sector partners.

We reported that SBA's current organizational alignment is characterized by challenges in three key areas:



First, SBA's structure has complicated, overlapping organizational relationships and ineffective lines of communication; second, there is confusion over the mission of the district offices; and third, SBA's field structure is not consistently matched with its mission requirements.

These and other elements combine to impede the efforts of SBA's staff to effectively deliver services to small business.

Let me focus for a moment on the first challenge, the complex overlapping organizational relationships and lines of communication, particularly among the field and headquarters units.

This slide shows the complexity of the reporting and accountability lines in SBA, an agency with 70 district offices, 10 regional offices, six area offices, nine loan processing and servicing centers, and over 1,000 small business development centers and other partners.

For example, district staff working on SBA loan programs report to their district management, while loan processing and servicing center staff report directly to the Office of Capital Access in headquarters. Yet district office program staff sometimes need to work with the centers to get information or expedite loans for their lenders in their districts.

Districts sometimes must route their request to the centers through the Office of Capital Access, and they have difficulty expediting loans because they lack the authority to direct the centers to take action.

Lenders also pointed out to us that lines of authority between headquarters and the field can be very confusing, and they highlighted that practices can vary widely from district to district.

The second key area we highlighted was confusion within SBA about the primary customer of the district offices. While headquarters saw the new role for the district offices as working more with small businesses, district office managers saw their primary clients as lenders. These managers also told us that their performance ratings were weighted very heavily on aspects of loan activity. In addition, only the 8(a) Business Development Program called for district offices to work directly with small businesses, which then further reinforced their perception that lenders rather than small business were their primary clients.

Finally, we reported that SBA's field structure is not consistently aligned with its mission requirements. For example, creation of loan processing and servicing centers moved some but not all loan-related workload out of the district offices. Similarly, regional offices were downsized but not eliminated, and a small headquarters office of field operations was created.

This slide—also the graphic on page 8 of my statement—shows all the locations of SBA's offices and those of its partners around the country.

The SBA officials, during our work, pointed out that some offices and centers were not located to best accomplish the agency's mission. These officials also stressed the role of congressional direction in the current structure.

We found 78 offices, programs or program changes created by law since 1961, with most being passed in the 1980s and 1990s,

and 11 staff positions with specific reporting relationships required by law.

In response to these and other challenges that have been raised, SBA drafted its five-year workforce transformation plan, and my comments are based on the version that we obtained from the SBA Chief Operating Officer, Dr. Blanchard.

For example, in response to the first challenge we raised, SBA plans to eliminate the current complex relationships between field and headquarters organizations by consolidating functions and establishing specific lines of authority.

Specifically, the plan is to further centralize loan processing, servicing, oversight, and liquidation functions, eliminate area offices for certain functions, and place them under either regional or district office lead, and move oversight for entrepreneurial development into the district offices.

To deal with the second challenge we raised, the confusion over the district offices' primary client, SBA's plan proposes making fundamental changes at the district level that have been discussed for years, but never actually carried out. The plan is to test specific strategies for focusing district offices' goals and efforts on outreach and marketing of SBA services to small businesses and on lender oversight.

The SBA's transformation plan also discusses consolidation and elimination or reduction of redundant offices to deal with the third challenge I mentioned, a field structure that is not consistently matched with mission requirements.

For example, the loan-related functions I discussed earlier are to be consolidated into fewer centers but with expanded roles for handling loan-related functions currently handled by district offices.

I would now like to emphasize that organizational alignment is crucial if an agency is to maximize its performance and ensure accountability. As SBA moves forward to execute its transformation plan, success will depend to a great extent on the following:

One, how well it links changes, goals, resources, strategies and performance measures to the fundamental result SBA seeks to achieve through strategic planning;

Two, whether it employs effective strategic human capital management, including strategic human capital planning, acquiring, developing and retaining talent and results-oriented organizational culture;

Three, how well it sustains senior leadership and accountability with agency goals reflected in performance ratings of senior executives, and in the performance appraisal system for lower level employees, and sustained senior management attention to implementing the draft plan and support from key external and internal state holders;

Four, sound alignment of activities, core processes and resources;

And five, how effectively internal and external collaboration is employed.

Mr. Chairman, that concludes my summary remarks.

[Ms. D'Agostino's statement may be found in the appendix.]

Chairman DEMINT. Thank you very much. That was excellent. And now let us move to the SBA itself to see how we are responding to this.

Dr. Blanchard.

**STATEMENT OF LLOYD A. BLANCHARD, CHIEF OPERATING  
OFFICER, U.S. SMALL BUSINESS ADMINISTRATION**

Mr. BLANCHARD. Thank you, Mr. Chairman. Thank you very much for allowing us the opportunity to expound on our plan here today, and good afternoon, and thank you, Ranking Member, for your comments and for allowing us to present to you our plan.

I am pleased to share with you all the Small Business Administration's plan to transform the agency and its workforce to meet the modern demands of small businesses. As you know, small businesses are the foundation of our nation's economy. SBA assistance has helped many of today's successful small businesses.

Today, almost a quarter of American households are either starting a business, own a business or are investing in someone else's business. President Bush has shown a strong commitment to small businesses. He recently stated, "One of my jobs is to create an environment in which the entrepreneurial spirit flourishes, in which small business owners are able to keep making a living, and keep people employed."

The SBA's transformation plan seeks to shape the agency so that it will be in a position to create such an environment.

Small businesses must be able to change with the times, adjusting to the changing demands of their customers as well as incorporating new technologies to remain competitive. SBA faces a similar challenge.

In the President's F.Y. 2003 budget request, SBA has requested \$15 million to undertake this transformation effort that will bring the agency's organization in line with the way it will serve small businesses in the future. This testimony will summarize these plans.

The SBA is a small agency with about 2,100 employees in the field, 700 in headquarters, and approximately 1,300 full and part-time employees in the disaster assistance program. While SBA is one of the five major credit agencies, its regular appropriation for F.Y. 2002 was just \$768 million. With this amount and modest fees, SBA has the ability to leverage \$25 billion in capital and credit.

The President has called for federal agencies to not only become more citizen centered and results oriented, but also market-based. SBA has been quite successful in leveraging its scarce resources, largely because of a business model that is market-based. Instead of providing its non-disaster services to small businesses directly, SBA operates through a public/private partnership model where the agency relies on resource partners to deliver its products and services.

For example, instead of making direct loans, SBA guarantees loans made by lending institutions, and instead of delivering technical assistance programs directly, SBA funds its entrepreneurial development partners like the Service Corps of Retired Executives and the Small Business Development Centers to deliver such services.

This market-based model has enhanced SBA's ability to serve small businesses. In 1990, SBA provided just \$3.7 billion in lending

through its business lending programs. In 2001, it provided \$14 billion. Over this decade the number of clients counseled and trained through SBA's entrepreneurial development programs increased from about 800,000 to 1.3 million, while at the same time overall agency personnel dropped by 30 percent.

Despite this success over the past decade, SBA continues to face the challenge of serving more small businesses while still being customer centered and results oriented. Administrator Hector Barreto has charged the agency to continue to accomplish the following:

Find new ways to reach out to America's 25 million small businesses; operate using a model of client and partner relationship management, and measure SBA's success by its customers' success.

With the remainder of my comments, I will explain how SBA's transformation plan will meet these challenges and serve more small businesses. I will describe why the agency needs to transform itself, addressing the problems raised by the General Accounting Office and SBA's Inspector General. I will show how SBA intends to transform itself, and in doing so address the concerns that have been raised. I will also point to the management principles that SBA will use as guidance.

The SBA's plan to transform its organization and workforce is based largely on three sources: the President's Management Agenda, the Administrator's vision for the agency, and the need for fundamental change as identified by GAO and SBA's IG.

The GAO has just referred to the challenges SBA's current organizational structure presents, and SBA agrees that they do pose a problem. SBA's transformation plan addresses ineffective lines of communication by increasing the responsibility and accountability of the 10 regional administrators and relying more on the regional offices to enhance communication.

Regarding the confusion and inconsistency related to mission and the structure of district offices, SBA will change the role of the district offices from being process-oriented to providing greater marketing and outreach to small businesses.

We have, Mr. Chairman, and will continue to make it clear to all within the Agency and to our partners that serving small businesses is our mission, and all small business owners are our customers.

In response to the complicated and overlapping organizational relationships, SBA's transformation plan will remove most of the processing and servicing functions, often called the backroom functions, from the districts and consolidate these functions within the centers. This will also be addressed by the structural reorganization that will give the regional administrators more responsibility and hold them more accountable for all field activities.

With this plan, SBA has acknowledged the difficult challenges it faces in improving its service delivery. The fact that SBA is biting the bullet and committing to correcting these longstanding problems is due to the leadership of Administrator Barreto. Since the necessary changes are substantial in scope, they will be phased in over the next five years.

The following outlines the main components of SBA's transformation plan:

The regional offices, under the direction of the regional administrators, will have a larger role in facilitating communication from headquarters to the field and will have greater responsibility for the delivery of all SBA services in the field.

The SBA will also place one senior career staffer with solid knowledge of all program areas in each regional office to support that regional administrator.

The SBA will consolidate the government contracting offices and the surety bond field functions within the regional offices.

The SBA will remove most loan processing, servicing, guaranteed purchases and liquidation of business loans, as well as servicing and liquidation of disaster loans, from the district offices, and consolidate them into the centers. Districts will retain, however, some processing and servicing responsibilities for the most difficult cases.

The SBA will consolidate the certification, eligibility, and review functions for the HUBzone, SDB, and 8(a) programs. SBA will also centralize all lender oversight functions and purchase reviews.

The Agency will streamline headquarters operations by eliminating management layers, expanding their span of control, and implementing a rent savings initiative to decrease the burden of overhead costs.

In support of these efforts, SBA will use a more flexible service delivery model, we will use more flexible service delivery mechanism, including telecommuting, off-site locations, and storefronts.

The SBA will also implement a training regime that will support all of the new responsibilities we will be asking of our employees. Indeed, SBA's most valuable asset is its employees, and SBA could not achieve this transformation effort without dedicating significant resources toward their development.

While SBA's programs have changed over the past decade, its required employee skills and training programs have not. This has left SBA with skill gaps in critical areas, hindering the Agency's ability to effectively serve its clients.

The SBA recognizes the task in taking on such a broad initiative. The implementation plan relies on an incremental phased-in approach that mitigates potential risks. SBA's transformation efforts begin with studying the best practices of its planned changes.

In phase I, we will remove back room lending functions from three districts: Miami, Florida, Charlotte, North Carolina, and Phoenix, Arizona. SBA will transfer the 7(a) loan purchases and the 7(a) and disaster loan liquidation activities from these offices and transfer them to the Santa Ana liquidation center. Also, SBA will transfer all 504 loan processing from these districts and the Sacramento district office to the Sacramento PLP Processing Center.

This six-month pilot is scheduled to begin in earnest after a two-month transition.

Two assessments will evaluate the district's new operations: one in three months, and one after the six-month period. SBA will use the first assessment to learn from the district's experiences and adjust the new operations accordingly. The second assessment will conclude with a report on the success of this pilot to make the necessary changes in the second and the third phases.

Phase II of the transformation will extend the pilots to up to 20 more districts with an eye on the effects of the diversity of regions' market size and small business needs on the implementation of these new responsibilities.

Around April 2004, SBA will have a solid understanding of the benefits and consequences of its transformation and will begin full implementation in Phase III.

The SBA's implementation plan includes five key elements: client relationship management, partner relationship management, personnel development, the implementation of technology, and organization and business process re-engineering.

In addition, SBA is following GAO's guidance for successful management reform which includes the following: demonstrated leadership commitment, integration of management improvement initiatives to programmatic decision making, thoughtful and rigorous planning to guide decisions, effective employee involvement, organizational alignment to streamline operations and clarify accountability, and strong and continuing congressional involvement.

The SBA anticipates that full implementation will yield several long-term results. They include: more satisfied and successful customers, more efficient and effective delivery of its services, reduced costs, and improved oversight of all resource partners.

Mr. Chairman, SBA is at a crossroads. Unless the Agency makes fundamental changes, it cannot effectively serve small businesses in the future. This plan documents how the Agency will transform itself through increasing use of technology, investing in our personnel, becoming more customer focused, and forging more constructive relationships with our partners.

The \$15 million SBA has requested in the President's F.Y. 2003 budget is critical to facilitate these changes to meet the needs of small businesses. This is what the President and Congress demand, and this is what citizens expect.

Thank you, Mr. Chairman, for the opportunity to address the Subcommittee, and I am happy to answer any of your questions. [Mr. Blanchard's statement may be found in the appendix.]

Chairman DEMINT. Thank you, Dr. Blanchard. We will hold our questions until we hear from the other two panelists.

Mr. Jasper, we will keep you to five minutes, and you will see a green light until you are almost out of time, and then you will see a yellow light, and when the red light comes on the hook comes out. Thank you.

#### **STATEMENT OF HERBERT JASPER, FELLOW, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION**

Mr. JASPER. Mr. Chairman and Subcommittee members, I appreciate the opportunity to offer comments on principles to guide the structuring of federal agencies.

Last October's report by GAO on SBA's structure identifies a number of challenges. I will start with general comments on guiding principles. Then I will discuss the challenges facing SBA, especially those relating to organization.

Following is an adaptation of principles regarding federal organization and agency management from previous academy papers that appear most pertinent to this hearing.

Agency heads should be held accountable for the quality of management. Legislation that lodges functions in officers other than agency heads or that stipulates reporting channels will impair effective management and make it harder to hold agency heads accountable.

The quality of program management depends heavily on the field organization's design. Experience favors decentralized management, but there must be clear policies and standards to guide field officials.

No agency can function well unless it relies heavily on an experienced cadre of career civil servants.

Principal field officials usually should be in the career civil service.

I turn now to some organizational challenges for SBA. I begin by applauding SBA's efforts to date. What follows is intended to fill in some of the plan's gaps and to encourage early attention to those and to the remainder of the agency's agenda. First, a few more thoughts about restructuring.

Thomas Stanton noted in a recent paper that, "as in architecture, form should follow function or purpose." SBA has experienced significant growth in number, size, and complexity of its programs, but it is not clear that SBA had previously changed its structure sufficiently in response to changes in programs, priorities and methods. So it is probably time for a program review addressing the possible elimination or combination of programs, as well as a review of structure.

As also noted by Stanton, "\* \* \* reorganization is not a substitute for inadequate resources." Further, I believe that reorganization is always costly and disruptive; is a way to emphasize certain values or goals; and seldom saves money. SBA's plan proposes some changes to make the agency more responsive to its principal small business customers, but the first phase of the plan does not go very far in rationalizing a complicated field structure with 10 regions, 70 district and 16 branch offices, more than 1100 centers, plus six area offices and nine loan servicing centers.

The GAO noted that creation of the Office of Field Operations was not reconciled with a coherent redefinition of the regional administrator's role. Perhaps creation of that office was a mistake.

Substantial delegation of operating responsibilities to the field is desirable. However, for various headquarters offices to deal directly with a large number of field offices is guaranteed to cause confusion and conflicts. I believe regional administrators ought to be in the chain of command to district offices. That should go far toward clearing up two challenges cited by GAO; namely, overlapping organizational relationships and ineffective lines of communication.

Also, the number of district offices appears excessive, and some area offices no longer have a significant workload. SBA, with up to 60 appointees, has an inordinate number of such positions. I suggest that SBA convert regional administrators to career positions and eliminate or convert a substantial number of other appointed positions.

Congress should consider removing unnecessary prescriptions about internal management matters that GAO noted. The four most significant appeared to be: number and location of the field

offices, apparently some located in response to congressional influence, and termination of them or a combination will surely require congressional acquiescence.

Second, constraining the Administrator's ability to integrate the SBDC program and other programs with defined reporting relationships is a difficult approach and makes it impossible to hold the Administrator accountable for results. He must be able to adapt the delegations of authority from time to time as conditions change.

Third, servicing of direct loans for disaster assistance is sometimes performed by the same personnel who service other loans, but the funding for those service centers is not able to be combined.

I have just a couple of more points if you would like me to finish.

Chairman DEMINT. Sure, please.

Mr. JASPER. Eleven positions beyond presidential appointees are required by statute. I am not referring to the programs they are responsible for. Those should be authorized by law. But specifying administrative arrangements locks in the reporting channels and prevents adjustments as programs evolve.

Finally, about the overlapping positions at headquarters, the COO in executive departments is usually the deputy secretary, but not in SBA, which also has a chief of staff and a deputy associate administrator for management and administration.

So SBA has four positions that are concerned with agency-wide management and operations. I suggest it is time to consider either lodging the COO job in the deputy or alternatively combining the COO and chief of staff jobs. However that combined position would be titled, I think it is vital that it should remain in the career civil service—should be put in, that is, because it currently is not although it was recently.

I close by reiterating my strong support for what the transformation plan outlines, but I urge careful attention to the issues I have discussed. In particular, I urge that Congress work with SBA to minimize statutory prescriptions or other constraints regarding matters that should be left to the Administrator.

Thank you.

[Mr. Jasper's statement may be found in the appendix.]

Chairman DEMINT. Thank you, Mr. Jasper. And I do hope, Dr. Blanchard in our question period, if you might respond specifically to some of the things that we just heard.

General Anderson, we will hear from you now. Thank you.

**STATEMENT OF BG (RET) FRANK J. ANDERSON, JR.,  
PRESIDENT, DEFENSE ACQUISITION UNIVERSITY**

Mr. ANDERSON. Thank you. Mr. Chairman and members of the Committee, thank you for inviting me here to share some ideas on effective leadership principles.

In defining leadership, most authors distinguish between leadership and management. Leadership is creating a vision, setting direction, aligning people, and leading change, while management is planning, budgeting, organizing, staffing, controlling and problem solving.

My comments today will focus on three critical but interrelated aspects of leadership: leadership attributes, leadership functions and leadership results.



Leadership is a leader's ability to communicate, inspire, facilitate, mentor and influence others. The leader must be able to sell ideas and shape the environment so that good people will want to excel. Effective communication is how the leader ensures that the strategic direction is understood and that all employees are aligned with the organization's mission and vision.

Critical leadership functions include strategic planning, leveraging technology and organization redesign, and maybe the most important function, selecting, aligning and empowering the right leadership team. The leader must provide a clear vision and long-term perspective to shape the organization's future. This provides a mission, vision, strategic goals, and strategies to obtain them.

A deliberate strategic planning process that links performance and accountability for results is essential to guide the organization. All too often strategic plans are drafted and approved, and then become dust collectors that never influence organizational results. To avoid this very common outcome, the strategic plan must be constantly managed and renewed.

Technology is a powerful enabler that can facilitate the leader's drive to transform an organization. Organization redesign enabled by the smart application of technology can have a powerful impact on an organization's productivity and eventual outcomes. But organizational redesign and enabling technology must be thoughtfully considered together. Simply imposing new technology on old organizational structures and old business practices will not only result in a more costly, but still inefficient organization.

To achieve solid results, the leader must address the organization's culture. Culture is the existing practices and social norms. Culture is how an organization routinely thinks, acts, and conducts business. It impacts how an organization responds to customers and stakeholders. The leader must value, nurture and reward collaboration and efforts to positively change the culture, to eliminate outdated practices, and to significantly improve internal processes and mindsets. Moreover, if the goal is to create a high-energy, customer-focused organization, the leader must provide opportunities and incentives for people to change from old to new paradigms.

For organizational success, selecting the right people and placing them in the right positions are important; however, aligning the leadership team is not only important but vital. Leadership alignment involves all actions to ensure the leadership team has collective ownership of the mission, vision, goals, and direction set by the senior leader. This is paramount for long-term organizational success. Leadership alignment is about focus and getting the key leadership team to move and act in one voice, one plan, and one play book.

In closing, I am honored to be here today and to have an opportunity to work with the hardworking and dedicated members of the Small Business Administration, and the Department of Defense Acquisition, Technology and Logistics workforce. I appreciate the support provided by Congress and look forward to working with this Committee in any way possible to realize our common goals for a viable, healthy, and strong small business program. I am happy to address any questions you may have.

Thank you.

[Mr. Anderson's statement may be found in the appendix.]

Chairman DEMINT. Thank you, General Anderson, for your words because you reminded me of many things that I needed to be thinking about as we look at restructuring.

And, Dr. Blanchard, I would certainly like your consideration. Let me make some comments, and you may want to respond to that because I very much appreciate the organizational structure and where you want to go with that, but I am reminded that there is probably not enough discussion or has not been enough at least in our hands about reshaping the mission and the vision of SBA itself. And I think in a strategic plan we would certainly need to review that, what the agency is, what it wants to become.

But I would also like to see more discussion of who your customers are, because who your customers are today, at least in my mind, are not who your customers need to be tomorrow. A lot of us on the Committee have been concerned that we have been basically picking the low-hanging fruit as far as loans to businesses that are well established with collateral. Those that really need to get started and need help—we are not there for them, or maybe we have too many requirements for them to get in the loop.

So I would really like to see as a preface to this restructuring plan, mission, vision, and customers. And as Mr. Jasper suggested, I really do think in front of structural planning has to come some review of our programs and how that matches who our customers are, who they need to become, and how that fits with our mission. I think those are very important aspects of what we need to see, I think, to have the credibility to ask for \$15 million in the first year, and what we need to be totally behind this. I think the structural plan makes a lot of sense in the abstract but I hope it could be connected to those things.

Another part of this, I think, on the end of it that is missing, as was mentioned by the General, is every plan should have some way that we are going to measure results. How are we going to determine if these changes have actually affected appropriate outcome and actually achieved our mission to our customers?

So I think this is probably a good start, although maybe we started on second rather than at home, to really look at the mission and vision, and I would appreciate just your input back to myself that I could share with the Committee of how these aspects of mission, vision, customers and programs fit with the structural design of the agency and how long term we are going to look at measuring the results.

And before I ask for some interaction here, Mr. Grucci, you—oh, I am sorry, but we have had comments and you have not, but I will yield to you, Ms. Ranking Member. He had just indicated he could not stay the whole time. So Felix, would you like to make a few comments.

Mr. GRUCCI. Well, I would, but in the context of brevity I will ask that my comments be made a part of the record, and we may continue on with the questioning that may want to take place by the Ranking member.

Chairman DEMINT. Okay, we will begin with the Ranking Member and you will be next.

Ms. MILLENDER-MCDONALD. Thank you so much, sir, for your sense of protocol, and I thank you, Mr. Chairman.

In the reports that you get, please make sure the Ranking Member gets a copy as well so that she can transfer this to the members on her side.

I have appreciated the structural outline that Ms. D'Agostino gave to us, and I suppose many of us who have been in personnel positions, directorships, recognize organizational structure. And I am still a bit concerned, Mr. Blanchard, as to the responsibilities of your field units, your regions, your districts, who does what to whom, one reports to whom. The logistical nightmare in and of itself seems extremely complicated.

There are some questions that I must raise in your comments. Dr. Blanchard, is it? I am sorry.

Mr. BLANCHARD. Yes.

Ms. MILLENDER-MCDONALD. When you spoke about having the president's management agenda, which seeks to make federal agencies citizen-centered, results oriented and market-based, have you done a market analysis, and have you talked with citizens, especially those who are small business persons?

And as the Chairman says, a lot of the dynamics have already—the dynamics has already changed in terms of small businesses. You have more minorities, more women. And so what has taken place in terms of your marketing analysis of that?

And the other thing that I had pointed out in your comments, we have any number of 10 regional offices, 70 district offices. You have said here that the SBA transformation plan addresses this problem by enhancing the responsibility and accountability by the 10 regional administrators.

That is confusing to me because I have yet to see where the accountability will lie ultimately. Who would have that responsibility for the accountability given the structure that we have?

And it says here further that the 10 regional offices, and by giving the 10 regional administrators and 70 district directors responsibility over all SBA program activities to me becomes extremely confusing. As the structure has been in its present form, there was a confusion about the mission statement and your mission objective.

And here with this conglomerate of persons having the responsibility over all of this, I suppose I need to be walked again, and you can do this perhaps in my office if you want to so that we will not belabor this, but I am still totally confused as to these layers and the transformation of those, the accountability and to whom reports to whom, and if you have done a market analysis, and where have you done this market analysis to reflect those persons of color, women in your whole restructuring plan?

Mr. BLANCHARD. Thank you, Madam Ranking Member.

It is the way our current structure is now. It is very confusing, and part of our plan is to try to get rid of some of that confusion. Indeed, it was the confusion that was pointed out by the GAO and our own IG that encouraged us to take a hard look at the structure at the same time that we look at on programs. We recently took a look at these during our district director conference. But I will

get to that in just a second, and will address your question, if I may, on the market analysis or market-base.

When the President calls for agencies to be market-based, he means for them to use the private sector as much as possible and using, to the greatest extent possible and to the greatest extent feasible, public/private partnerships. For SBA, however, being market-based not only means using those public/private partnerships for service delivery, but it also means understanding our market, our customers, small businesses and their needs.

And associated with this plan is a plan to perform a needs assessment, to understand clearly what small businesses need so that we can address those needs, but we cannot address those needs very well with the disjointed nature of our structure.

What we are calling for is for the field through the regional administrators and the district directors, to have responsibility for the delivery of all of our programs because indeed they are the faces of the SBA. They are the members of this agency that touch small businesses. And we need to arm them with access to all of our services.

Right now we have SBDCs performing our entrepreneurial services, our counseling and technical training. We have our lending partners and other banks providing loans. And then we have an entirely separate structure for our government contracting.

Ms. MILLENDER-MCDONALD. Is that not amazing? So in other words, your regional office heads or someone there in the structure that we have currently has not done any needs assessment to discern what those needs are at this juncture?

Mr. BLANCHARD. I suppose that some regional administrators have done that needs assessment on an ad hoc basis. There is nothing in our regular program to compel that to be done on a regular basis. What we want to do is to compel it to be done on a regular basis, and that needs assessment is not the needs of the business of the customers that we presently serve, but the customers that we want to serve in the future. That includes not only the more beginning and start-up small businesses, but also minority- and women-owned small businesses, and those businesses that are somewhat mature but want to grow even further, thus contributing more to this economy.

Ms. MILLENDER-MCDONALD. You know, Dr. Blanchard, when you have said that your needs assessment would more or less be predicated on what your future aspects of the constituency or the small business persons will be as opposed to what they are now, women are making up a large segment of the small businesses, so that need assessment should be in place now in terms of women-owned businesses, and a great degree of minority-owned businesses, especially Latino businesses are already in place, so that needs assessment should already reflect those groups as we speak, and of course, African Americans and others who are coming, Asian small businesses as well.

So I would like to think that there is a needs assessment out there now that has to some degree those components. If not, then I am quite disturbed on that.

Mr. BLANCHARD. Well, the needs assessment that I speak of is one that is much more comprehensive so that it can guide a fundamental change in our program set.

Ms. MILLENDER-MCDONALD. And that is fine and I understand that, as long as you do not leave out any one of those subsets in your—

Mr. BLANCHARD. No, ma'am.

Ms. MILLENDER-MCDONALD [continuing]. In your plethora or your complete comprehensive plan.

Mr. BLANCHARD. Yes, ma'am.

Ms. MILLENDER-MCDONALD. The one thing that I spoke of, Mr. Chairman, if I may, and then I will conclude for the moment, I spoke about the workforce, and you spoke about your workforce as well. And I am hoping that in your restructuring you include in that a workforce that is depictive of this country's constituency, and more importantly, the small businesses.

And I would like to ask you what are you doing in your assessment of your skill labor and your employees, and your contemplation of ensuring that they reflect the country?

Mr. BLANCHARD. That is a very good question. Let me first say we are very proud at SBA that our employees and our workforce, are indeed reflective of our national demographics. The fact that Hector Barreto is our Administrator, and I sit here before you today—

Ms. MILLENDER-MCDONALD. From California, I might add.

Mr. BLANCHARD. Yes, ma'am. Yes, ma'am.

And what we are doing to improve the development of our workforce is very much a big part of this plan. What we need to do is to address the significant demographic problem that we face. That is not to say demographics along ethnicity, but demographics along age. In a year or two almost half of our employees will be prepared to retire. We are not prepared at this moment, and this is true for many agencies in the federal government, to deal with that because the agency has not done well to build a succession plan.

What we plan to do, one, is to build a training regime that looks forward in regards to the vision that we have set forth, which is to serve many more small businesses, which is to build our district offices so that they can perform less of the backroom operations and more marketing and outreach, and also to measure our success by small business success, not simply by the widgets that we produce.

And so this training program is a very important part of that effort. Included in the training regime are individual development plans, which you will see in our plan and in the written testimony, that are unique for each individual. What we want to do in this agency is not to keep on training specialists so that when job opportunities are presented folks are only able to apply for those jobs if they happen to have the special skills. What we want to do, and this is consistent with the changes we want to make in the district offices with regard to more marketers and outreaches, we want to create generalists so our finance professionals have a good understanding of the contracting world, so our entrepreneurial development professionals have a good understanding of our finance world, and the like.

And so to the extent that we can do this and include the employees' individual goals within their individual development plans, we will be able to accomplish the goals that I think you and I share.

Chairman DEMINT. Thank you, Dr. Blanchard.

Mr. BLANCHARD. Thank you.

Chairman DEMINT. Mr. Grucci.

Mr. GRUCCI. Thank you, Mr. Chairman.

Dr. Blanchard, I have just two questions for you based upon the testimony I have heard here today.

In evaluating the restructure of the SBA, have you considered any changes to the current SBA programs in addition to the changes in the structure of the agency?

And the second question, as Mr. Jasper suggested combining several positions, what are the differences, if there are differences, in the roles of the COO and the chief of staff?

Mr. BLANCHARD. Thank you, sir. I will be happy to address those questions.

With regard to consideration of changes in programs, which is also part of the Chairman's concern, recently we participated in a district director conference where we brought all of our regional administrators and district directors from around the country here to Washington to have a pow-wow as it were, to figure out what we want to do for the future.

It was at this district director conference that the Administrator promulgated his vision. It was at this conference that we then took that vision and asked how we implement this vision to include a focus on specific programs within the context of the President's vision of being more customer-centered, market-based and results oriented.

It is this plan that moves in that direction. This is the plan that brings that vision and the President's vision together. Within that context, we spent that weekend thinking about what our loan programs should look like to be more customer focused development programs and our entrepreneurial, what should our technical training programs look like, to what degree do we want to do one-on-one counseling, and to what degree do we want to do training via the internet.

We took a look at the contracting environment and tried to determine how can we do better at providing greater access to government contracting for small businesses. This was the debate that took place at that conference, again working within the President's and the Administrator's vision providing the parameters for that conversation.

And what bubbled out of that were some new directions for our programs which I have not talked about here today, but you can rest assured that those programs were designed to be more customer centered, and to use private/public partnerships to deliver those programs because, frankly, we cannot do it ourselves. We can reach many more small businesses by having our partners out there helping us deliver services. We will provide oversight and coordination activities on behalf of our partners. We will have our partners in the one hand and the small business customers in the other, and we redirect the customers based on our assessment of what they need. They may need a loan and some training to help

build their business plan, or they just may need a loan because they are more mature and have a well developed plan.

Whatever it is, maybe they need access to contracting because they already have a mature company and they are ready to deliver high-quality services to the federal government or to state and local governments.

So what we want to do is put the districts in a position to move those clients to our service partners as they see fit, and that is what I mean by client and partner relationship management as well as the marketing and outreach focus.

Mr. GRUCCI. Would that cause any changes in the current programs?

Mr. BLANCHARD. Again, the current programs will not change. This structure is built to facilitate the new programs that we want to engage in, and those new programs are not fundamentally different than what we have always done. We are just trying to find better ways to get them out there to more businesses.

If I may, in response to your question about Dr. Jasper's point in regards to the role of the COO. There is an interesting debate about whether the COO should be separate from or embedded within the deputy of the Agency.

The COO's role is a unique role in the federal government, but only recently in GAO's human capital products of July 2002—the GAO suggested that there ought to be a COO that is separate presumably, I am not sure of that, from the deputy so that person can engage in the sort of day-to-day managerial and operational functions key for success, particularly for success in a reform effort.

Whether or not the COO should be political or career, I understand the arguments of Mr. Jasper and Ms. D'Agostino. I happen to be political, but those who know me know that I am pretty much a management wonk anyway. So I do focus strictly on the ability of the Agency to deliver its services and not so much on all of the other responsibilities that typically are handled by the Deputy and the Administrator.

Ms. MILLENDER-MCDONALD. Mr. Chairman, I just wanted to ask him—

Chairman DEMINT. Ms. Millender-McDonald.

Ms. MILLENDER-MCDONALD [continuing]. If we find that there are a lot of political appointees, how will that climate change in this restructuring?

And you stated that there are—there are seven to eight program—there were seven to eight program changes, yet you say with new programs coming on. I suppose you will integrate those changes. But when you do that, Dr. Blanchard, please speak to this, and I will just wrap mine up, you said—well, the workforce transformation plan outlines the agency plan to centralize the 8(a) program annual reviews, and also consolidate of 8(a) offices and associated personnel cost. Now, what does that mean?

We do know that a lot of the minority small businesses, specifically African Americans, rely heavily on 8(a) programs, and also I need to have you further in your delineation of this restructuring, how will you speak to those programs that are faltering, that need to have some type of uplift and be put into the realm of success? And that is a lot of the African American small businesses.

Mr. BLANCHARD. Yes, ma'am. Let me address that by saying that you might think of our functions in the agency as falling into two categories with regard to our services. Some are front room functions, that is the marketing and outreach, and the others are back room functions, that is the processing and servicing, and the sort of turning of the wheel and paper pushing.

What we want to do is consolidate the latter, consolidate the activities that are really back room so that we can free up FTEs, free up our limited human capital resources, to do more of the front room functions, which is marketing and outreach, and that outreach includes reaching out to various communities, providing them with the services that we have available. Sometimes those services are particularly directed to those communities, like the 8(a) program, so that they can gain access to the government contracts that, for whatever reason, they have not been able to gain access to before.

Remember, we want to move folks from back room operations to front room operations so that we can do precisely what you want us to do more of. We have a fixed human capital resource base. We have got to think more strategically as the President has called upon us to figure out how we are going to better manage that human capital. Without more human capital, we need to move that toward the more back room functions is not the way to go. We can contract out back room functions. We can contract out that paper-pushing activity. What we want to do is move more toward front room functions—marketing, outreach, bringing the client to the services and providing those services.

That is not to say that we do not have work to do in the delivery of our services. We do indeed have work to do, and the Administrator has also charged me with the role of program review, so we will through my office engage in comprehensive program review so that we can make sure that all of our programs are indeed meeting their goals as they were directed through legislation.

Ms. MILLENDER-MCDONALD. And meeting those goals with the variances of groups that are out there trying to be successful through this small business process.

Mr. BLANCHARD. Yes, ma'am.

Chairman DEMINT. The Ranking Member made an important point, I think, that fits with some of the things I was mentioning earlier.

We talk about customers, but I have found from the marketing business that some businesses go out and get who they want. Others go out and meet the needs of those who have unmet needs are sometimes not the easiest to reach out to. And I think absent perhaps from the proposal of restructuring again is clarification of mission, who the customers are, targeting those customers and really detailing their needs, and the different segments of this market.

I think we really need to see how programs relate to the different market segments would help us evaluate our programs, and then our structure. So it almost seems now we are talking about something in the abstract without really laying out details.



Now, I am not suggesting that this is information you do not already have at the agency, but it is something I think that would help us sell a plan. And if there has not been a market needs assessment, if there has not been customer research about what their needs really are once we target who needs to be served, I would suggest that be included in the budget, because to build a whole structural plan to serve people that we do not clearly know what their needs are. Now that may be obvious from those who have operated in the agency for years, but sometimes the obvious does not include what is really there.

And so what I would like to do just briefly is to allow the three other panelists just to make any remarks after hearing all the other remarks, just advice to the SBA.

Ms. D'Agostino, I will just start with you.

Ms. D'AGOSTINO. I guess the version of the plan, we understand it is still in a state of flux, and it is changing. I think it has changed since we—the copy we got. And I know there are a lot of details yet to be worked out for this plan. I think it is a good conceptual document.

In looking at the plan, we identified a whole lot of strengths about the plan that I think are really important to recognize. This plan articulates the new business focus that SBA wants to pursue, which is getting closer back again to the customer, the small business, and I think it also provides for an employee line of sight, which I think is something we are always looking for with their ability to see their contributions to this new business focus.

It also integrates all these important components like the organizational, functional, and human capital realignment, and the IT and training needs to accomplish this new business focus.

It recognizes that it takes time and it costs some money to do these change initiatives. And the other good thing about this plan is that it is committed to evaluating progress, and that is often missing in many agencies change initiatives that we have identified.

Some of the key questions that we still have remaining, and I am sure this will all become apparent over time is that we feel it is important to see how the performance management system and the district office goals and measures will be changed. And I think this is something you brought up, Chairman DeMint, to reinforce the new business focus that SBA's success will be defined by its small business clients' success, and how to marry those a little more closely than they have been in the past.

And also how perhaps the SES contract terms, which is a very easy thing, it is such an easy thing to change each year to get focus from the leadership in the districts and the regions on being committed to this plan and making sure it works and gets carried out.

But the bottom line is that performance goals and incentives are really crucial to gaining commitment and achieving success in a change initiative like this. So that is something we would like to see movement on.

Chairman DEMINT. Mr. Jasper.

Mr. JASPER. Yes, thank you.

The principal point I would emphasize that is largely, and I emphasize largely within the discretion of the agency, is the field

structure issue that has been discussed. I think that needs to be simplified and rationalized, and I suggested one model for that.

The more important thing that I guess I would like to say, and perhaps I could preface it by saying that after many years in the federal executive branch I came up to Capitol Hill, worked as Senate staff for five years, and then with two congressional staff agencies. I learned a great deal about the Congress by working up here as compared to what I thought before I came up, and I think I understand a little bit about what motivates members and committees to behave the way they do.

Ms. MILLENDER-MCDONALD. Really? Let me know what that is. [Laughter.]

Mr. JASPER. But some of the things that are perfectly understandable for members and Committees to do can wreak havoc with an agency's internal administration. And I would suggest that both the rather surprising, almost shocking, number of appointee positions in a small agency, and the detailed prescriptions with respect to the 11 officers—11 positions that GAO pointed to really prevent managing the agency in a way that can adapt it to the rapid changes in program priorities.

And I understand, because of what I said about the Hill, that this is not easy to do. But I urge that you work sort of sympathetically and cooperatively with the agency to identify those matters of the general character I just described that are really the most significant obstacles to more effective management. The objective should be to see if you can work to reduce some of the statutory prescriptions and perhaps encourage the reduction of some of the appointed positions.

Those would be my main points.

Chairman DEMINT. Good ideas, and since we do not do the appointing, I do not think we will resist reducing the political appointments.

Ms. MILLENDER-MCDONALD. Mr. Chairman, I would like to ask Dr. Blanchard. Part of your restructuring, does it call for some reductions in those political appointees?

Mr. BLANCHARD. I would say it does not. The purview of the political appointees is outside the agency, and so it was not appropriate for us to address those.

However, we are looking to reduce management layers in particular, and if, for instance, a position was deemed as duplicative or just useless, if that position happens to be held by a political person, it would not change our recommendation because our recommendation is based on the functional activities of the agency rather than who sits in what chair.

Ms. MILLENDER-MCDONALD. Well, what about program underfunding. Now that would be something that is in your purview.

Mr. BLANCHARD. The funding of the programs in part, I guess, could be, but overall funding is not.

Ms. MILLENDER-MCDONALD. I understand. But I am saying that you can certainly speak to the fact that some of the programs that you want to implement need more funding.

Mr. BLANCHARD. Again, our request for funds are based on a larger consideration. You know, when the President submits his budget, which includes our request—

Ms. MILLENDER-MCDONALD. That is correct.

Mr. BLANCHARD [continuing]. I would say that falls within a larger set of considerations government-wide, and our request is in effect a negotiated settlement between the Agency and the President's budget office.

Ms. MILLENDER-MCDONALD. And, Dr. Blanchard, I think you can negotiate very well.

Mr. BLANCHARD. Thank you very much.

Chairman DEMINT. Okay, just a quick clarification, Dr. Blanchard, before we hear from General Anderson.

You can reduce the number of positions. You just are not in control of how many of those end up being political appointees; is that right?

Mr. BLANCHARD. That is correct, sir.

Chairman DEMINT. Okay. So you can do the structure the way you think it should be, and it would be up to us to put pressure on the executive branch or whatever to reduce.

Mr. BLANCHARD. That is correct.

Chairman DEMINT. Okay. General Anderson

Mr. ANDERSON. Mr. Chairman, since I did meet my five minutes, I would like for my extended text to be included in the record.

And then a couple of points because I have not reviewed the details, but there are some fundamental organizing principles.

One, as you start to look at reorganization or transformation, it starts from a clear definition and understanding of what is a mission, what are you tasked to do and what are you trying to achieve.

By understanding those two things, and you made that point earlier, by understanding those two it allows you to get a clear focus on who the customers are and how you best serve them.

As you start to look at an organization, the organizational structure that is put in place should be shaped around the mission or the tasking that you are trying to carry out, and that will drive both process and people.

And probably the most significant decision in terms of people will be alignment of the key leadership team, knowing that from top through whatever the key leadership positions are, and that will be sorted out as you look at the regional and field structure, of the flow of communication and who you are holding accountable in those key positions.

In a conversation that I had with Dr. Blanchard, I believe they are starting to sort through those issues, and they have a work in progress and time line that they have put in place to do that, but structure is always driven by what you are trying to do.

So thank you.

Chairman DEMINT. Any additional comments, Ms. McDonald?

Ms. MILLENDER-MCDONALD. No, thank you. It seems like, as I have quickly reviewed Mr. Anderson's testimony, it seems like everything you say I agree to, so I didn't have any questions.

Mr. ANDERSON. Okay.

Ms. MILLENDER-MCDONALD. But I thank you so much for your testimony as well as Mr. Jasper.

Chairman DEMINT. I want to thank all the panelists. It has been a great hearing, and I hope we can expect, Dr. Blanchard, to hear back from you on any additions or ideas after the input from this

meeting. And I thank everyone in the audience. I appreciate your being here.

This hearing is adjourned. Thank you.

[Whereupon, at 3:40 p.m., the Committee was adjourned.]

**Subcommittee on Workforce, Empowerment, and  
Government Programs**

Opening Statement – July 16, 2002

First, I want to thank everyone for coming today. As a small business owner, I take great interest in serving the small business community. Walk down the main street of any town and everyone will notice how much we rely on small businesses. Whether it is the corner deli, the local hardware store, or the mom and pop gas station that has been open for decades, these businesses have become familiar landmarks and we visit them because their owners are extended family. They provide the personal touch we all desire.

However, small businesses offer more than just friendly connections; they are an essential lifeblood to communities. They create hope, economic opportunity, and prosperity. And they support the local community by giving more in charity per employee than do large businesses. By providing about 67 percent of the initial job opportunities, small businesses are also responsible for the majority of initial training in basic job skills.

In addition, according to recent data small firms produce 55 percent of all innovations. Lacking the prohibitive bureaucratic structure of larger firms, small firms are able to generate twice as many product innovations per employee. With greater flexibility and freedom, they can find creative solutions to complex problems.

More importantly, today entrepreneurship is paving the way for more and more people to live the American dream. Between 1992 and 1997, minority-owned businesses grew about 4 times faster than other business. According to the U.S. Department of Commerce, in 1997 there were more than three million minority-owned businesses in the United States, employing 4.5 million people and generating \$591 billion in revenues.

In order to maintain this trend, we must make it a top priority to help the Small Business Administration meet the needs of business owners and those attempting to start their own businesses. In October 2001, the Government Accounting Office issued a report on the Small Business Administration and noted several challenges facing the SBA in its efforts to deliver services to the small business community. These challenges include ineffective lines of communication; confusion over the mission of district offices; complicated, overlapping organizational relationships; and a field structure not consistently matched with mission requirements.

I know that the SBA has begun to address these problems, and I look forward to hearing Dr. Blanchard elaborate on how the SBA plans to transform itself. I also look forward to the testimony of the other participants and their input on the organizational structures and leadership skills that may be necessary to truly transform the SBA.

As we proceed, I am sure we agree on the need to make certain the federal government is indeed helping small businesses. Let's make sure the Small Business Administration is providing that support effectively and meeting the needs of this important sector of our economy.

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**Statement**  
**Committee on Small Business**  
Subcommittee on Workforce, Empowerment  
and Government Programs  
**Hearing on SBA Restructuring**  
**7/16/02**

Mr. Chairman, Ranking Member Millender-McDonald, Colleagues  
and Guests:

The mission of the Small Business Administration is to foster economic development through aiding, counseling, assisting and protecting the interests of small businesses. Its clients are small businesses, not lenders. The SBA's limited funds must be used to meet its mission and serve its clients. Budget restrictions have already forced the close of the One Stop Capital Shop. Such closures do far more than organizational difficulties to inhibit the SBA's effectiveness.

I do recognize that it has been ten years since the SBA has undergone restructuring. Given the changes that the small business world has undergone during these ten years it is high time for us to consider restructuring. However, I am skeptical about any restructuring that will privatize more SBA functions. We cannot reasonably expect profit-oriented organizations to adequately serve the SBA's mission of economic development. I believe more privatization will lead lending institutions to engage in portfolio lending. Portfolio lending, where banks make loans knowing that



a certain percentage of these loans will default, would hardly benefit small businesses.

I am also wary of greater centralization that results in more distance between the SBA and small businesses. Restructuring should focus responsibility of delivering SBA services at the district level. District offices understand the unique business environments in which borrowers operate. Thus, these offices must play the preeminent role facilitating loans for small businesses.

Finally, one reform we should attend to is reducing the number of appointed positions in the SBA. No less than sixty positions are awarded based on political affiliation. It is my firm belief that being appointed for one's politics may hamper one's ability to meet the SBA's mission.

Mr. Chairman, I thank you for my time.

United States General Accounting Office

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**GAO**

Testimony  
Before the Subcommittee on Workforce,  
Empowerment and Government Programs,  
Committee on Small Business,  
House of Representatives

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For Release on Delivery  
Expected at 2:00 p.m., EDT,  
Tuesday, July 16, 2002

## **SMALL BUSINESS ADMINISTRATION**

### **Workforce Transformation Plan Is Evolving**

Statement of Davi M. D'Agostino  
Director, Financial Markets and  
Community Investment



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Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss how well the Small Business Administration's (SBA) organization is aligned to fulfill its mission. By organizational alignment, we mean the integration of organizational components, activities, core processes, and resources to support efficient and effective achievement of outcomes. SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of the nation's small businesses and by helping businesses and families recover from natural disasters. SBA has a total portfolio of about \$44 billion, including \$39 billion in direct and guaranteed small business loans and other guarantees and \$5 billion in disaster loans.<sup>1</sup> Over three-quarters of SBA's 4,075 employees<sup>2</sup> are assigned to the agency's 10 regional offices, 70 district offices, and other field locations.

In the past 10 years, SBA has made changes to both its organizational structure and service delivery. In response to budget reductions in the 1990s, SBA streamlined its field structure, downsized its 10 regional offices, and created the Office of Field Operations to act as liaison with the district offices, a function formerly performed by the regional offices. Additionally, SBA restructured its loan programs by creating centers to process and serve the majority of loans—work once largely handled by the district offices. SBA has also gone from making loans directly to guaranteeing loans made by commercial lenders. Most recently, to guide organizational changes needed to improve its delivery of services and respond to issues and challenges raised by GAO, the Office of Management and Budget (OMB), and the SBA Inspector General, SBA has drafted a plan for a 5-year workforce transformation. The draft plan we obtained recognizes SBA's need to restructure its workforce, privatize non-core functions, adjust incentives and goals, and streamline its headquarters' operation.

Our testimony today is based primarily on the report we issued on October 26, 2001, as well as additional GAO human capital-related work and our

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<sup>1</sup>As of September 30, 2001.

<sup>2</sup>As of February 23, 2002. This number includes 102 employees in the Office of the Inspector General and 956 in the Office of Disaster Assistance.

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review of SBA's draft 5-year workforce transformation plan.<sup>3</sup> Our remarks will focus on (1) SBA's current organizational alignment, issues it poses in SBA's ability to fulfill its mission, and SBA's draft workforce transformation plans; and (2) information SBA should consider as it moves forward with its transformation plan. In conducting our work for the October 26, 2001 report, we obtained documents on both current SBA alignment and past reorganization efforts, reviewed laws mandating aspects of SBA's organization, analyzed the restructuring efforts of other federal agencies, and collected information on best practices in organizational alignment. In addition, we interviewed 78 senior SBA officials in headquarters and field offices.

In summary:

- SBA's current structure contributes to the challenges SBA faces in delivering services to the small business community. In particular, ineffective lines of communication; confusion over the mission of district offices; complicated, overlapping organizational relationships; and a field structure not consistently matched with mission requirements combine to impede the efforts of SBA staff to deliver services effectively. SBA's structural inefficiencies stem in part from realignment efforts during the mid-1990s that changed how SBA performed its functions but left aspects of the previous structure intact, congressional influence over the location of field offices and centers, and legislative requirements such as specified reporting relationships. In response to our findings and additional challenges identified by OMB and the SBA Inspector General, SBA recently announced a draft 5-year workforce transformation plan that discusses many of our findings regarding the difficulties posed by its current structure.
- Organizational alignment is crucial if an agency is to maximize its performance and ensure its accountability.<sup>4</sup> As SBA moves forward to

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<sup>3</sup>U.S. General Accounting Office, *Small Business Administration: Steps Taken to Better Manage Its Human Capital, but More Needs to Be Done*, GAO/T-00-256 (Washington, D.C.: July 30, 2000); U.S. General Accounting Office, *Small Business Administration: Current Structure Presents Challenges for Service Delivery*, GAO-02-17 (Washington, D.C.: October 26, 2001); U.S. General Accounting Office, *A Model of Strategic Human Capital Management* GAO-02-373SP (Washington, D.C.: March 15, 2002); U.S. General Accounting Office, *FBI Reorganization: Initial Steps Encouraging, but Broad Transformation Needed*, GAO-02-865T (Washington, D.C.: June 21, 2002);

<sup>4</sup>U.S. General Accounting Office, *Human Capital: Taking Steps to Meet Current and Emerging Human Capital Challenges*, GAO-01-965T (Washington D.C.: July 17, 2001).

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execute its workforce transformation plan, it should consider employing strategies common to successful transformation efforts both here and abroad. Successful efforts begin with instilling senior-level leadership, responsibility, and accountability for organizational results and transformation efforts. Organizations that have successfully undertaken transformation efforts also typically use strategic planning; strategic human capital management; alignment of activities, processes, and resources; and internal and external collaboration to underpin their efforts, among other transformation and change management initiatives.<sup>5</sup>

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**SBA Staff Identified  
Organizational  
Problems**

According to senior SBA officials in headquarters and the field, several aspects of the current organizational alignment contribute to the challenges faced by SBA management. The problem areas include cumbersome communication links between headquarters and field units; complex, overlapping organizational relationships; confusion about the district offices' primary customer; and a field structure not consistently matched with mission requirements. According to the agency scorecard report for SBA,<sup>6</sup> while SBA recognizes the need to restructure, little progress has been made to date. In response to our findings and additional challenges identified by OMB and the SBA Inspector General, SBA drafted a 5-Year Workforce Transformation Plan.

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**Cumbersome  
Communication**

The 1990s realignment—in which the regions were downsized, but not eliminated, and the Office of Field Operations was created, but never fully staffed—resulted in the cumbersome communication links between headquarters and field units according to senior SBA officials in headquarters and the field. The Office of Field Operations had fewer than 10 staff at the time of our review, and senior SBA officials told us that it would be impossible for such a small office to facilitate the flow of information between headquarters and district offices as well as was done by the 10 regional offices when each region had its own liaison staff. As a result, headquarters program offices sometimes communicate with the

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<sup>5</sup>U.S. General Accounting Office, *Management Reform: Elements of Successful Improvement Initiatives*, GAO/T-GGD-00-26 (Washington, D.C.: Oct. 15, 1999) and U.S. General Accounting Office, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

<sup>6</sup>The agency scorecard is a grading system used by the administration to grade agencies' efforts at executing management improvements.

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district offices directly and they sometimes go through the Office of Field Operations. To further complicate communication, the regional offices are still responsible for monitoring goals and coordinating administrative priorities to the district locations. Officials described how these multiple lines of communication have led to district staff being on the receiving end of conflicting or redundant requests. While some SBA officials felt that the regions had a positive effect on communication between headquarters and the districts, others felt that the regions were an unnecessary layer of management. The SBA Inspector General's office found similar problems with communication within SBA when it conducted management challenge discussion groups with almost 50 senior officials from SBA headquarters, regional, and district offices.<sup>7</sup>

SBA has recognized that as it transforms itself, it needs to make the lines of communication between the districts, regions, and headquarters clearer to help bring about quick, effective decision-making. SBA plans to increase the responsibilities of the regional offices, perhaps by adding a career deputy regional administrator to assist the Regional Administrator in overseeing the district offices. Under SBA's draft plan, the deputy would also work closely with the Office of Field Operations to coordinate program delivery in the field.

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**Overlapping  
Organizational  
Responsibilities**

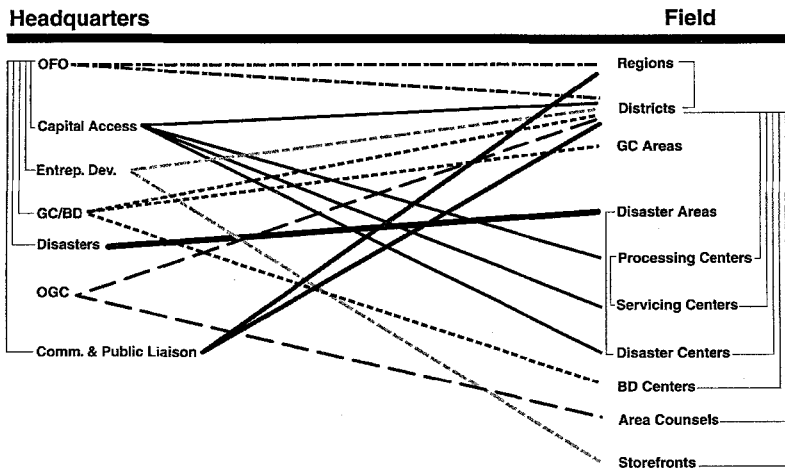
We also found evidence of complex, overlapping organizational relationships, particularly among field and headquarters units. For example, district staff working on SBA loan programs report to their district management, while loan processing and servicing center staff report directly to the Office of Capital Access in headquarters. Yet, district office loan program staffs sometimes need to work with the loan processing and servicing centers to get information or to expedite loans for lenders in their district. Because loan processing and servicing centers report directly to the Office of Capital Access, requests that are directed to the centers sometimes must go from the district through the Office of Capital Access then back to the centers. District managers and staff said that sometimes they cannot get answers to questions when lenders call and that they have trouble expediting loans because they lack authority to direct the centers to take any action. Lender association representatives

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<sup>7</sup>Small Business Administration, Office of the Inspector General, *Advisory Memorandum: Report on the Results of SBA Management Challenge Discussion Groups*, #01-04-01 (Washington, D.C.: Apr. 4, 2001).

said that the lines of authority between headquarters and the field can be confusing and that practices vary from district to district. Figure 1 depicts the variety of organizational relationships we found between SBA headquarters and field units.

Figure 1: Organizational Relationships Between SBA Headquarters and Regions, Districts, and Other Field Units



Note: This chart refers to the following SBA offices: Office of Field Operations (OFO), Office of Government Contracting/Business Development (GC/BD), Office of the General Counsel (OGC), and Government Contracting Area Offices (GC Areas). This chart also uses the term "storefronts" to characterize Small Business Development Centers, Business Information Centers, Women's Business Centers, and other such locations where the public accesses SBA programs.

Sources: GAO analysis of SBA organization.

SBA plans to eliminate the current complicated overlapping organizational relationships between field organizations and headquarters organizations by consolidating functions and establishing specific lines of authority. SBA's draft transformation plan states that this effort will reduce

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management layers and provide a more efficient management structure. Specifically, SBA plans to further centralize loan processing, servicing, oversight, and liquidation functions; eliminate area offices for surety bonds and procurements by making regional or district offices responsible; and move oversight for entrepreneurial development programs to district offices.

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**Disagreement Regarding  
the District Office's  
Primary Customer**

We found disagreement within SBA over the primary customer of the district offices. Headquarters executives said that the district offices primarily serve small businesses, while district office officials told us that their primary clients are lenders. The headquarters officials said that the role of the district office was in transition and that, because many lending activities had been centralized, the new role for the district offices was to work with small businesses. However, the district office managers said that their performance ratings were weighted heavily on aspects of loan activity. Moreover, there is only one program—8(a) business development—through which district offices typically work directly with small businesses, further reinforcing the perception of the district managers that lenders rather than small businesses are their primary customers.

According to SBA's transformation plan, the mission of its districts will become one of marketing SBA's continuum of services, focusing on the customer, and providing entrepreneurial development assistance. SBA stated that over the next 5 years, it is fully committed to making fundamental changes at the district level, changes that have been discussed for years, but have never been fully implemented. To begin this change, SBA plans to test specific strategies for focusing district offices' goals and efforts on outreach and marketing of SBA services to small businesses and on lender oversight in three offices during fiscal year 2002. SBA plans to implement the results in 10-20 districts in fiscal year 2003. As part of this change, SBA will need to carefully consider how the new mission of its district offices will affect the knowledge, skills, and abilities—competencies—district staff will need to be successful in their new roles. If competency gaps are identified, SBA will need to develop recruitment, training, development, and performance management programs to address those gaps.

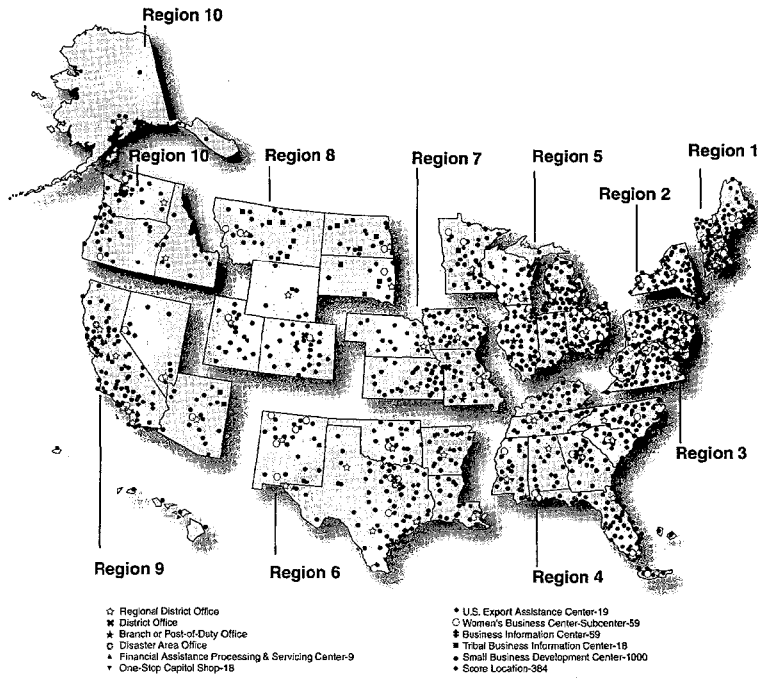


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**Field Structure Not  
Consistently Matched with  
Mission Requirements**

SBA managers said that, in some cases, the current field structure does not consistently match mission requirements. For example, the creation of loan processing and servicing centers moved some, but not all, loan-related workload out of the district offices. District offices retained responsibility for the more difficult loans and loans made by infrequent lenders. Similarly, the regional offices were downsized, but not eliminated during the 1990s. In addition, they said that some offices and centers are not located to best accomplish the agency's mission. For example, Iowa has two district offices located less than 130 miles apart, and neither manages a very large share of SBA's lending program or other workload. SBA also has a loan-related center located in New York City, a very high-cost area where it has trouble attracting and retaining staff. Figure 2 shows the locations of SBA offices around the country.

Figure 2: SBA Offices and Field Locations in the United States



Source: SBA.

SBA officials also stressed that congressional direction has played a part in SBA's current structure. SBA officials pointed out that Congress has

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created many new offices, programs, aspects of existing programs, and pilot projects and has prescribed reporting relationship, grade, and/or type of appointment for several senior SBA officials. We found 78 offices, programs, or program changes that were created by laws since 1961, with most of the changes occurring in the 1980s and 1990s. Eleven SBA staff positions and specific reporting relationships were also required by law.

In its transformation plan, SBA discusses its difficulty with matching its field structure with mission requirements and states that in order for the field structure to reflect the new mission and customer focus, consolidation of functions and the elimination or reduction of redundant offices may be necessary. The result of consolidations will be a streamlined organization with reduced management layers and an increased span of control for the field organizations that remain. For example, over the course of the 5-year plan, SBA plans to consolidate all loan processing, servicing, and liquidation into fewer centers, but give them an expanded role for handling all the functions currently carried out in the district offices.

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**Organizational  
Alignment is Crucial  
to Maximizing  
Performance and  
Ensuring  
Accountability**

Integrating personnel, programs, processes, and resources to support the most efficient and effective delivery of services—organizational alignment—is key to maximizing an agency's performance and ensuring its accountability. The often difficult choices that go into transforming an organization to support its strategic and programmatic goals have enormous implications for future decisions. Our work has shown that the major elements that underpin a successful transformation—and that SBA should consider employing—include strategic planning; strategic human capital management; senior leadership and accountability; alignment of activities, processes, and resources to support mission achievement; and internal and external collaboration.<sup>6</sup>

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**Strategic Planning**

Proactive organizations employ strategic planning to determine and reach agreement on the fundamental results the organization seeks to achieve, the goals and measures it will set to assess programs, and the resources and strategies it will need to achieve its goals. Strategic planning is used to drive programmatic decision-making and day-to-day actions and, thereby, help the organization be proactive, able to anticipate and address

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<sup>6</sup>GAO/T-GGD-00-26, and GAO/GGD-96-118.

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emerging threats, and take advantage of opportunities, rather than remain reactive to events and crises. Leading organizations, therefore, understand that strategic planning is not a static or occasional event, but a continuous, dynamic, and inclusive process. Moreover, it can guide decision-making and day-to-day activities.

According to the agency scorecard report, SBA has not articulated a clear vision of what role it should fill in the marketplace. In our review of SBA's fiscal year 2000 performance report and fiscal year 2002 performance plan, we reported that we had difficulty assessing SBA's progress in achieving its goals because of weaknesses in its performance measures and data.<sup>9</sup> We said that SBA should more clearly link strategies to measurable performance indicators, among other things. SBA said it has made adjustments to its managing for results process and now has identified specific performance parameters that must be met. Additionally, SBA recognizes the need for its workforce transformation plan and 5-Year Strategic Plan to complement each other.

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#### Strategic Human Capital Management

People—or human capital—are an organization's most important asset and define its character, affect its capacity to perform, and represent its knowledge base. We have recently released an exposure draft of a model of strategic human capital management that highlights the kinds of thinking that agencies should apply and steps they can take to manage their human capital more strategically.<sup>10</sup> The model focuses on four cornerstones for effective human capital management—leadership; strategic human capital planning; acquiring, developing, and retaining talent; and results-oriented organizational cultures—and a set of associated critical success factors that SBA and other federal agencies may find useful in helping to guide their efforts.

In its workforce transformation plan, SBA said that it recognizes that employees are its most valuable asset. It plans to emphasize the importance of human capital by clearly defining new agency functions and identifying and developing the skills and competencies required to carry out the new mission. SBA also plans, beginning in fiscal year 2002, to

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<sup>9</sup>U.S. General Accounting Office, *Small Business Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, GAO-01-792 (Washington, D.C.: June 22, 2001).

<sup>10</sup>GAO/02-373SP.

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conduct a comprehensive skill and gap analysis for all employees. In addition, SBA will increase its emphasis on its two succession planning programs, the Senior Executive Service Candidate Development Program and the District Director Development Program, to recruit qualified individuals for future leadership roles. SBA also said that it plans to increase the number of professional development opportunities for employees to ensure that they can build missing competencies.

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**Senior Leadership and Accountability**

The importance of senior leadership and commitment to change is essential. Additionally, high performing organizations have recognized that a key element of an effective performance management system is to create a "line of sight" that shows how individual responsibilities and day-to-day activities are intended to contribute to organizational goals. In addition to creating "lines of sight," a performance management system should encourage staff to focus on performing their duties in a manner that helps the organization achieve its objectives.

The SBA Administrator has demonstrated his commitment to transforming SBA by tasking his Deputy Administrator and Chief Operating Officer with coordinating the implementation of SBA's 5-year workforce transformation plan. He also said that the transformation plan will complement the agency's 5-Year Strategic Plan and that SBA's successes will be measured by the successes of its clients. These are important steps in aligning expectations within the agency toward agency goals. As SBA begins to implement its transformation plan, it will also be important to be certain that agency goals are reflected in the performance objectives and ratings of SBA's senior executives and the performance appraisal systems for lower-level employees. Sustained senior management attention to implementation of the plan and support from key internal and external stakeholders will be important ingredients in the ultimate success or failure of SBA's transformation.

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**Alignment of Activities, Processes, and Resources**

An organization's activities, core processes, and resources must be aligned to support its mission and help it achieve its goals. Leading organizations start by assessing the extent to which their programs and activities contribute to fulfilling their mission and intended results. They often find, as our work suggested, that their organizational structures are obsolete and that levels of hierarchy or field-to-headquarter ratios must be changed. Similarly, as priorities change, resources must be moved and workforces redirected to meet changing demands.

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According to the President's Management Agenda, while SBA recognizes the need to restructure, little progress has been made to date and SBA has not translated the benefits of asset sales and technological improvements into human resource efficiencies. In response, SBA drafted a 5-Year Workforce Transformation Plan intended to adjust its programs and delivery mechanisms to reflect new ways of doing business and the changing needs of its clients. SBA said that it plans to continue with asset sales, to enhance technology by using contractors, and to use technology to move work to people—more of whom will be deployed at smaller facilities in the future.

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**Internal and External  
Collaboration**

There is also a growing understanding that all meaningful results that agencies hope to achieve are accomplished through networks of governmental and nongovernmental organizations working together toward a common purpose. Internally, leading organizations seek to provide managers, teams, and employees at all levels the authority they need to accomplish programmatic goals and work collaboratively to achieve organizational outcomes. Communication flows up and down the organization to ensure that line staffs have the ability to provide leadership with the perspective and information that the leaders need to make decisions. Likewise, senior leaders keep the line staff informed of key developments and issues so that the staff can best contribute to achieving organizational goals.

SBA has long understood the need for collaboration. In the late 1980s, SBA shifted its core functions of direct loan making and entrepreneurial assistance to reliance on resource partners to deliver SBA programs directly. This shift allowed SBA to greatly increase its loan volume and the number of clients served. However, SBA has lost much of its direct connection with its small business owner clients. SBA has only recently begun to develop the appropriate oversight tools for its resource partners and the appropriate success measures for its programs and staff.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have at this time.

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**Contact and  
Acknowledgments**

For further information regarding this testimony, please contact Davi M. D'Agostino at (202) 512-8678. Individuals making key contributions to this testimony included Susan Campbell, Katie Harris, and Kay Kuhlman.

**STATEMENT OF**

**LLOYD A. BLANCHARD**

**CHIEF OPERATION OFFICER  
U.S. SMALL BUSINESS ADMINISTRATION**

**SBA's WORKFORCE TRANSFORMATION**

**BEFORE THE**

**SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT AND  
GOVERNMENT PROGRAMS**

**COMMITTEE ON SMALL BUSINESS**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**JULY 16, 2002**



Thank you, Mr. Chairman, Ranking Member, and other members of the Subcommittee. I am pleased to share with you the Small Business Administration's (SBA) plan to transform the Agency and its workforce to meet the modern demands of small businesses.

As you know, small businesses are the foundation of our nation's economy. SBA assistance helps build many of today's successful businesses. Today, almost a quarter of American households are either starting a business, own a business, or investing in someone else's business. To quote President George W. Bush, "...one of my jobs is to create an environment in which the entrepreneurial spirit flourishes, in which small business owners are able to keep making a living and keep people employed" (March 18, 2002). SBA's transformation plan seeks to shape the Agency so that it will be in a position to create such an environment.

Small businesses must be able to change with times, adjusting to the changing demands of their customers as well as incorporating new technologies to remain competitive. SBA faces a similar challenge. In the President's FY 2003 budget request, SBA has requested \$15 million dollars to undertake a transformation effort that will bring the Agency's organization in line with the way it will serve small businesses in the future. This testimony will summarize those plans.

**SBA is a Small Agency with a Big Mission**

SBA is a small agency, with about 2,100 employees in the field, including 700 in headquarters and approximately 1,300 full- and part-time employees in the disaster assistance program. While SBA is one of the five major federal credit agencies and one of the 24 federal agencies covered by the Chief Financial Officers' Act requiring more stringent financial management, SBA's regular appropriation for FY 2002 was just \$768 million (excluding supplemental funds). With this amount and modest fees, SBA has the resources to provide small businesses in FY 2002 with up to \$25 billion in capital and credit, give counseling and technical training services, and help small businesses gain access to their fair share in federal procurement contracts.

The President has called for federal agencies not only to become more citizen-centered and results-oriented but also more market-based. SBA has been quite successful in leveraging its scarce resources largely because of a business model that is market-based. Instead of providing its non-disaster services to small businesses directly, SBA operates through a public-private partnership model where the Agency relies on resource partners to deliver SBA programs. For example, instead of making direct loans, SBA began guaranteeing loans made by banks, and instead of delivering technical assistance programs directly, SBA relies on its entrepreneurial development partners, like the Service Corps of Retired Executives (SCORE) or the Small Business Development Centers (SBDCs), to deliver such services.

This market-based model has enhanced SBA's ability to serve small businesses. In 1990, SBA provided \$3.7 billion through its business lending programs – 7(a), 504 and SBIC; in 2001, it provided \$14 billion. At the same time, the number of clients counseled and trained through SBA's entrepreneurial development programs increased from about 800,000 to 1.3 million while the number of overall personnel dropped by 30%.

Despite its success over the past decade adopting this market-based partnership approach, SBA continues to face the challenges of servicing many more small businesses while being more customer-centered and more results-oriented. Articulating his vision for the future of SBA, Administrator Hector Barreto has charged the Agency to continue to expand its efforts in these areas by:

- finding new ways to reach out to America's 25 million small businesses;
- operating using a model of client and partnership relationship management; and
- measuring SBA's success by its customers' successes.

The first goal is based on the presumption that there are many more small businesses that are seeking ways of expanding and growing their business but, for whatever reason, have not yet accessed SBA services. The second goal is SBA's response to the challenge of being more client focused using a successful partnership model. The third goal is our response to the challenge of being more results oriented.

With the remainder of my comments, I will explain how SBA's transformation plan will meet these challenges and put the Agency in a better position to serve small businesses. I will first describe why the Agency needs to transform itself, citing the problems raised by the General Accounting Office (GAO) and SBA's Inspector General (IG). I will then show how SBA intends to transform itself, and in doing so correct each of the concerns that have been raised. Finally, I will describe the management principles that SBA used as guidance and how it has incorporated them into its transformation efforts.

#### **Why SBA needs to transform itself**

As alluded to earlier, SBA's plan to transform its organization and workforce is based largely on three sources:

1. The President's Management Agenda, which seeks to make federal agencies citizen-centered, results-oriented, and market-based;
2. the Administrator's vision for the Agency; and
3. the need for fundamental change as identified in recent years by GAO and the IG.<sup>1</sup>

The GAO and IG concerns fall into three categories: organizational ineffectiveness, programmatic inefficiencies, and non-optimal use of human capital. In particular, the GAO has stated that SBA's current organizational structure contains "ineffective lines of communication;

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<sup>1</sup> See GAO reports, GAO-01-260, *Major Management Challenges and Program Risks*, January 2001 and GAO-02-17, *Small Business Administration, Current Structure Presents Challenges for Service Delivery*, October 2001. Also see Report No. 2-02, *Small Business Administration Office of Inspector General FY 2002 Management Challenges*,

confusion over the mission of district offices; complicated, overlapping organizational relationships; and a field structure not consistently matched with mission requirements.” Additionally, the IG identified 10 management challenges that face the SBA that cover a broader range of programmatic issues.

#### Ineffective lines of communication

Prior to 1993, SBA structured its organization to facilitate communications between headquarters and the field, where the 10 regional offices served as filters of information. Program and policy offices in headquarters communicated with the 10 regional offices, which then communicated with the 70 district offices. When SBA realigned itself at the beginning of the previous Administration, it significantly reduced the role of the regions and created an Office of Field Operations in headquarters to handle headquarters-to-field communication.

As GAO has pointed out, this office was never fully staffed. This led to communication problems and inconsistencies in policy direction. The GAO recommended a more coordinated approach to headquarters-to-field communication. SBA’s transformation plan addresses this problem by enhancing the responsibility and accountability of the 10 Regional Administrators and relying more on the regional offices as communication filters.

#### Confusion and inconsistency related to mission and structure of district offices

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January 2002 and *OIG Advisory Memorandum 01-04-01, Report on the Results of SBA Management Challenge Discussion Groups*, April 4, 2001.

The confusion over the mission of the district offices and the inconsistent match between field structure and mission requirements are two related concerns raised by GAO. They stem, in large part, from the change away from the Agency providing direct services to its greater reliance on private-sector partners to deliver its services. Regarding the confusion of the mission, most of SBA's employees will tell you that their customers are small businesses. However, some would say that the banks are their customers because they spend most of their time encouraging them to make more loans. The President has made it clear that all federal agencies will become more citizen-centered. For the SBA, this means returning its focus to helping small businesses.

Describing the inconsistent match between field structure and mission requirements is similar to describing the difference in customer focus between a retailer and a wholesaler. SBA's current field structure is set up for a "retail" operation to deliver direct services, not a "wholesale-like" operation that relies on a vast network of lending and development partners. The field has not kept up with changes in the way SBA delivers its products and services.

While SBA believes that the market-based partnership model is a good one, it is easy to see how this approach might lead to goal displacement, where the wholesaler (*i.e.*, SBA) focuses more on the retailers (*i.e.*, banks, SBDCs, etc.) and not the customers (*i.e.*, small businesses). SBA's transformation plan calls for continuing to use the partnership model but honing it to become more customer-centered. SBA will change the role of the district offices from overseeing the lending of banks to providing greater marketing and outreach to small businesses.

Complicated, overlapping organizational relationships

Changes in the way SBA delivers its services also explain the complicated and overlapping organizational relationships. Over the past decade, SBA has not only moved from providing direct services to using partners to deliver services but has also implemented a successful asset sales program. With these two changes, SBA found different parts of its delivery system performing the same functions. For example, people are engaged in the processing and servicing SBA loans in the district offices, in separate processing and servicing centers, and in the banks themselves. Moreover, SBA has already been successful in reducing its direct portfolio by 50% through asset sales, and this program is continuing – thereby further reducing the direct workload on its staff.

The complication in this arrangement arises when district staff must work with the processing and servicing centers on particular cases yet face increasing difficulty moving decisions forward without direct authority over these centers. Presently, district staff report to district managers, who report to the Office of Field Operations in headquarters. Processing and servicing staff report to a center manager, who reports to the Office of Capital Access (also in headquarters). SBA's transformation plan will address these problems by removing most of the processing and servicing functions (often called the "backroom" functions) from the districts and placing them in the centers and by consolidating the centers. This will also be helped by the planned structural reorganization that will give the Regional Administrators more responsibility and hold them more accountable for field activities.

Another aspect of the complicated organizational relationships at SBA comes from the fact that the district offices rarely are responsible for the goals related to the other two major program areas – government contracting and entrepreneurial development. The Office of Government Contracting and Business Development (GC/BD) directly manages six Area Offices and three certification and eligibility centers. Moreover, the Office of Entrepreneurial Development (ED) has direct responsibility over many different technical assistance programs and outlets, including over 1,000 SBDC service centers. The district office, which serves as the face of SBA in many communities, has little responsibility for or control over the field activities of these two program areas. SBA's transformation plan begins to address this problem by consolidating the contracting field offices within the 10 regional offices and by giving the 10 Regional Administrators and 70 District Directors responsibility over *all* SBA program activities, not just over business loans.

The above summarizes the major problems identified by the GAO and IG and how SBA plans to address each within its transformational efforts. The organizational ineffectiveness related to the ineffective lines of communication and mission confusion will be addressed through a return to a regional structure that works and through a focus on the district offices on marketing and outreach. The programmatic inefficiencies related to complicated and overlapping organizational relationships will be addressed by removing the backroom functions from the districts and by consolidating the processing and servicing centers. The GAO has also pointed to a problem that is not specific to the SBA but rather for the entire federal government: the lack of proper human capital planning.



The President has recognized this problem and has made the strategic management of human capital a centerpiece of his management reform agenda. The four other cornerstones of the President's Management Agenda are connected in SBA's transformation efforts, but this testimony will be limited primarily to the human capital agenda. The following section provides greater detail on how SBA will implement its workforce transformation plan.

#### **How the SBA intends to transform itself**

With this plan, SBA has acknowledged the difficult challenges it faces to improve its service delivery. The fact that SBA is "biting the bullet" and committing to correcting these long-standing problems is due to the leadership of Administrator Barreto. Since the necessary changes are substantial in scope, they will be phased in over the next five years. This section will outline in greater detail SBA's transformation plan.

SBA's transformation plan is based on the notion that it must be both "high-tech" and "high-touch." As such, most of the "high-tech" functions, like lender oversight and program reviews, must be centralized. The "high-touch" functions – directly assisting small businesses – must be left to the field, particularly the district offices and the private partners. In order to be customer-centered, SBA must align the work of the district offices to give them the flexibility to better serve small businesses where the customer is and when the customer needs Agency assistance. SBA, and not its private partners, must be "in charge" of SBA's customers. District offices must coordinate local organization of service delivery to ensure that customers receive access to all forms of assistance to meet their needs.

Also, much of this plan capitalizes on the efficiencies gained by the increased use of technology. SBA is looking at using new and current technology to support agency functions such as E-grants, E-trans (for loan transactions), and E-eligibility reviews. SBA is in the process of developing several E-government applications to deliver products and services more efficiently to all small businesses and, to a lesser extent, our resource partners. The Agency also anticipates implementing electronic workflows to gain efficiencies and increase the effectiveness of internal communications. Finally, SBA is developing its website, [www.business.gov](http://www.business.gov), into the homepage for small businesses.

The following outlines the main components of SBA's transformation plan.

- The regional offices will have a larger role in facilitating communication from headquarters to field and will have greater responsibility for the delivery of all SBA services in the field.
  - Regional Administrators (RA) will be given greater authority, responsibility, and accountability over all SBA services delivered in the field.
  - SBA will place one senior career staffer with solid knowledge of all program areas in each regional office to support the RA.
- SBA will consolidate the GC/BD and Surety Bond field functions within the regional offices, and application processing performed in Area offices and Surety Bond centers will be centralized.

- SBA will remove most business loan processing, servicing, guarantee purchases and liquidation of business loans, and servicing and liquidation of disaster loans from the district offices and consolidate them into a smaller number of centers.
  - Districts will retain some processing and servicing responsibilities for the most difficult cases.
  - Districts will focus on the marketing and outreach of *all* SBA services, which will include Capital Access, ED and GC/BD programs.
- SBA will consolidate HUBZone, SDB, 8(a) certification and eligibility, and 8(a) review functions within the same centers.
- SBA will centralize all lender oversight functions and purchase reviews within headquarters.
- The Agency will streamline headquarters operations by eliminating management layers and expanding the span of control of remaining managers and by implementing a rent savings initiative to decrease the burden of overhead costs.
- SBA will use of more flexible service delivery mechanisms, including telecommuting, off-site locations, and storefronts.
- Finally, SBA will implement a training regime to support all new responsibilities described above and to maintain human capital proficiency through the development of office-based and overall succession plans, as well as the use of Individual Development Plans (IDPs).

This last point should not suggest that training is a lesser priority. Indeed, SBA's most important asset is its our employees, and SBA could achieve none of this transformation effort

without dedicating significant resources toward their development. While SBA's programs have changed over the past decade, its required employee skills and training programs have not. This has left SBA with skill gaps in critical areas, hindering the Agency's ability to effectively service its clients. While the Agency does have two programs designed to develop its future leaders, the Senior Executive Service Candidate Development Program and the District Director Development Program, SBA does not have a comprehensive development program for all employees nor does the Agency deploy a clear succession plan to coordinate employee development and hiring needs with programmatic and policy planning processes. In the discussion that follows, SBA will implement training at each phase of the transformation process.

SBA recognizes the risk in taking on such a broad initiative. What follows is a discussion of how we intend to implement this plan. The Agency has developed the plan in such a way to mitigate the risk, allowing the Agency to first "test the waters" of reform and then to learn and improve from each successive effort. The three-phase approach is designed not only to facilitate this testing and learning but also to allow for flexibility. The first effort will begin with a small pilot (Phase I) to begin in mid- to late-August in three District Offices and two centers. SBA will carefully monitor the results from the pilots and evaluate them in terms of partner, customer, and employee satisfaction, service levels, costs and effectiveness. SBA will then take what we have learned from these experiences and adjust the implementation plan accordingly. We will then begin a Phase II, which will include a medium pilot of 10-20 district offices to examine the small pilot implications on a wider range of districts in different markets. Phase III will complete the transformation by implementing the results learned from previous pilots.

Phase I: The Three District Pilots

SBA's transformation efforts begin with studying the "best practices" of its planned changes. Above, I have identified the major components of the transformation plan. The initial small pilot will implement the removal of backroom lending functions in three districts – South Florida (Miami), North Carolina (Charlotte), and Arizona (Phoenix). SBA will transfer the 7(a) loan purchases and 7(a) and disaster loan liquidation activities from these offices to the Santa Ana Liquidation Center. Also, SBA will transfer all 504 loan processing from the three districts and the Sacramento District Office (DO) to the Sacramento PLP Processing Center.<sup>2</sup>

This pilot begins with an initial two-month training period, during which:

1. a finance team from headquarters will be sent to Santa Ana to train the already experienced liquidators on the guarantee purchasing function;
2. several files from each of the three DOs will be sent to facilitate this training, after which all relevant files will be shipped;
3. a contractor will be procured to assist the Office of Human Resources in training the staff in the three DOs on marketing, outreach, and client and partner relationship management;
4. integrated work processes in the Santa Ana center will begin to be developed to facilitate a streamlined process from loan origination, through servicing and liquidation, including

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<sup>2</sup> The Sacramento DO is only partially included in this portion of the pilot. Two experienced 504 processors from the Sacramento DO will be transferred to the Sacramento PLP Processing Center (in the same building as the DO) to work the 504 files to be sent from the three district pilot offices. Sacramento DO is included to facilitate the movement of key personnel.

- the development of E-trans, an electronic gateway to receive files in multiple formats, and imaging of loan files to facilitate long term storage of documents; and
5. SBA will develop rules for what is to be handled in districts and in centers as well as unilateral actions by banks. Once SBA has achieved this, SBA can then consolidate the current number of centers to accommodate to the anticipated reduced volume of backroom activities and increased efficiency of electronic work flows.

The six-month pilot is scheduled to begin in earnest after this two-month transition. Two assessments will evaluate the district's new operations, one at three months in and one after the six-month period. SBA will use the first assessment to learn from the districts' experiences and adjust the operations accordingly. The second assessment will conclude with a report on the success of the pilots, and produce recommendations.

#### Phase II: Extending the Pilot

This phase of the transformation implementation will extend the pilots to 10 to 20 more districts, with a eye on diversity of regions, market size, and small business needs. Applying what we will have learned from the pilot and minor adjustments to a diverse set of districts will allow SBA to examine which of the piloted "best practices" should be used with which districts and where further adjustments are needed. SBA will adjust those practices which it cannot apply to all. This phase recognizes that the notion of "best practices" itself can be somewhat naïve and limiting. SBA intends to implement such "best practices" in a way that still allows enough flexibility on the part of the DOs to adjust to their respective market needs.

This phase is scheduled to begin in April or May 2003, which gives the Agency a total of eight months to implement, evaluate, and adjust the activities of the initial phase. The evaluation schedule for this second phase will be every three months, ending with a report and recommendations. SBA has designed the periodic evaluations to further study how different environments affect the “best practices” on which the Agency settled. It is also designed to help the DOs adjust to the operating model. A team will be established for the sole purpose of these (and the previous) evaluations, and this team will consist of the Chief Operating Officer’s staff, staff from each of the program offices, and representatives from the three districts in the initial pilots. Having made it successfully to the second phase, the focus would be on helping the 10 to 20 districts adjust rather than continuing to evaluate the success of the pilot.

In this phase, SBA will take steps are similar to those taken in the first phase. The only difference is that the Agency has not yet identified the 10 to 20 districts and the relevant centers that will participate in this phase. The Agency is presently undertaking a study to identify which centers have the capacity to take on the files of such a group of districts. Thus, the second pilot will begin with an initial two-month training/transition period during which:

1. the finance team from headquarters will be sent to the relevant center to train center staff on the new functions that they may be asked to perform;
  2. all relevant files will be sent to all relevant centers;
  3. the Office of Human Resources team, together with the procured training contractor, will train DO staff in marketing, outreach, and client and partner relationship management;
- and

4. integrated work processes will continue to be developed to facilitate a streamlined process from loan origination through servicing and liquidation, and, where ready, new electronic processes will be implemented in all relevant centers and districts.

Phase III: Full Implementation

At this point, about 18 months after beginning the initial pilot, SBA will be in a position to have a solid understanding of the benefits and consequences of such a broad-based reform initiative. Assuming all continues to go well, the remaining districts will begin the transformation process.

**SBA uses several transformation strategies**

Just as there is no single issue facing SBA, neither is there a single solution. This workforce transformation plan discusses needed changes in programs, organization, use of technology and in people skill sets. This implementation plan begins by presenting five key elements that the transformation process must address.

Client relationship management. SBA's success will increasingly be measured by its outcomes, such as how successful its customers are. Just like for any small business, it is vital for SBA to make sure that its customers value the service SBA provides directly or through its partners and that this service contributes to customer success. Consequently, the Agency needs to improve its capacity to determine customer needs and offer the right kind of assistance through



partners or over the Internet. SBA needs to ensure that customers are not trapped between our different partner delivery channels.

Partner relationship management. Leveraging the resources of partners has been successful business model. However, partners do not always have the same goals as SBA's, and interactions between partners and SBA are not always simple, transparent and flexible. SBA will work with its resource partners to align goals and to facilitate the electronic flow of information to reduce costs and cycle times. This will entail working together to make the transactions between the SBA and its partners simpler and faster, use SBA's new portal to drive traffic to partners who have an interest in promoting SBA's goals, and ensure that the partnership is meaningful for the partners as well.

Personnel. SBA's personnel are its most important asset. With a high rate of attrition and growing workload, SBA needs to determine what skills are needed in the future, make sure its workforce has these skills and seek innovative ways to be able to handle imbalances in workload and available personnel. The goal of becoming a knowledge-based organization means that SBA will need to train most of its personnel every year. The SBA of the future will need to train generalists. With fewer employees in the district, employees must have a general training in order to handle more district functions and more successfully assist clients. This means that more employees must become more knowledgeable in procurement, technical assistance and loan issues than before. The partnership model makes it necessary for SBA personnel to have oversight as well as partnership relationship skills. SBA's client focus necessitates skills in

client relationship management and cross-training in core competency areas to better be able to assist clients.

Technology. Technology is a strong force for change and improvement. It can make a great contribution in the form of the Internet as a delivery channel for products, services and training and in the form of electronic files and applications providing a platform for new, integrated work flows. However, the changes that are contemplated have a strong value proposition and must make sense from a business point of view. In other words, it is important that changes begin with changes in programs, organization and business processes and that technology is added to facilitate transactions.

Organization and business processes. Technology is only an enabler. The organization and its business processes have to evolve in order to make the agency more efficient. Consequently, this is an important element of the implementation plan. These kinds of changes cannot be hurried. An incremental approach is most often needed to ensure that employees have the necessary training, that resources are matched to workloads, that the business processes are integrated into real work flows, and that there is continuous feedback and monitoring to ensure a smooth transformation.

**The management principles that SBA will use as a guide**

In citing the need for reform at agencies, GAO frequently refers to its report "Management Reform: Elements of Successful Improvement Initiatives" (T-GGD-00-26) for critical management elements necessary to improve agency performance. SBA is using the

elements of this report as a guide to how it intends to proceed with transformation efforts. The six major elements in the report SBA is following include:

1. Demonstrated leadership commitment and accountability for change. This includes personal involvement and sustained commitment of all the top leaders (both career and political) and clear, established lines of accountability and ownership. Administrator Barreto has established change as a priority for the Agency to all leaders and demonstrated this commitment through his constant willingness to lend his time in rolling out the different initiatives to Agency employees.

2. Integration of management improvement initiatives into programmatic decision making. SBA is not undertaking these efforts as a paper exercise. SBA has discussed change many times but has undertaken few initiatives. Using criteria from OMB and best practices, SBA has developed a new budget planning call that will use precise and measurable goals in annual performance plans for each program. In developing this plan, SBA is also working to take into account the major management challenges and program risks that have been identified by GAO and our IG's office. SBA believes that this plan has taken into account these concerns and will allow the Agency to address other concerns should they arise.

3. Thoughtful and rigorous planning to guide decisions, particularly to address human capital and IT needs. SBA first identifies all of its major IT purchases and projects in the budget planning call for future years. The BTIC evaluates and approves these projects.

SBA also intends to use activity-based budgeting to effectively distribute its workforce to address the Agency's vision for the future. SBA expects its managers to establish clear goals, concrete improvement steps, key milestones and cost and performance data to address identified weaknesses, and SBA will expect them to follow through on proposed measures.

4. Effective employee involvement to elicit ideas and build commitment and accountability. Useful change at the SBA requires the involvement of all SBA employees. Under the directive of the President's Management Agenda, SBA is working to foster a performance-oriented culture and to involve Agency staff in the process of designing and implementing proposed changes, giving employees a personal stake in SBA's future success. Plans for change focus on individual accountability and results at all levels in the Agency. SBA has tied these into each manager's performance rating. SBA does not expect its staff to undertake this task without assistance and will provide the staff with as many professional development opportunities as possible to work effectively and efficiently in this new environment. Finally, SBA is working with the unions to develop a consensus on goals and strategies to best implement these decisions.

5. Organizational alignment to streamline operations and clarify accountability. As cited numerous times by both GAO and its own IG, SBA has struggled with this in the past. SBA believes that it is undertaking the organizational realignment necessary to better achieve results, clarify accountability, and improve efficiency at the Agency. By giving each individual clear expectations and holding them accountable for results through performance

agreements and by establishing a less unwieldy organizational structure, SBA believes program management responsibilities and authorities will match.

6. Strong and continuing congressional involvement. Congressional support for SBA initiatives is critical in instituting and sustaining the management reforms the Agency is undertaking. I hope my presence here today and my willingness to be available for further briefings on SBA's efforts is evidence that the Agency takes your involvement and support in this process seriously. Also, I hope SBA can count on this Subcommittee's support of the Agency's request for \$15 million in funding needed to implement these changes.

**SBA's anticipated results**

SBA will transform itself into a knowledge-based organization that collects quality data, analyzes trends and customer needs, markets its products and services, provides world-class customer management, and integrates its products and services to serve customer needs.

SBA anticipates that the full implementation of the proposed strategic changes will yield several long-term results for the Agency and its customers as well as American taxpayers. This would include:

- more satisfied and more successful customers;
- enhanced use of technology to more efficiently and effectively deliver its services to all small businesses;

- reduced costs for partners in doing business with SBA and reduced unit cost for SBA's products and services;
- improved oversight of lending partners through centralization and more uniform application of rules for loan approval, loan changes, and purchase reviews;
- improved district oversight of entrepreneurial assistance resource partners;
- fewer district personnel involved in "backroom" operations, releasing more employees for customer management, marketing and outreach; and
- enhanced impact at the local level, as SBA is better able to contribute to customer success and state economic development issues.

### **Conclusion**

SBA has demonstrated before that it can transform itself, most recently by adopting the partner business model in the 1990's. It is again time for the Agency to undertake a transformation. With the increased use of technology and the scarcity of resources, SBA must become even more efficient at using our partner networks to be there when small businesses need assistance. SBA's workforce transformation plan documents how the Agency will continue to transform the Agency through the increased use of technology, investing in our personnel, becoming more customer focused and forging more constructive relationships with our partners. The \$15 million SBA has requested in its FY 2003 budget is critical to facilitate these changes.

Finally and most importantly, SBA's workforce transformation efforts will make the Agency and its programs more accessible to its citizens. Updating and streamlining the delivery

of SBA's services will result in a more cost effective government that is citizen-centered, market-based, and results-driven. With the strong leadership currently in place, a few resources, and a little time, we can transform SBA into a more accessible and responsive organization for the small business owner. This is what the Congress asks, the President demands, and citizens expect. SBA intends to provide results.

Thank you, Mr. Chairman, for the opportunity to address the committee. I am happy to answer your questions.



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**ON PRINCIPLES TO GUIDE THE STRUCTURING OR  
RESTRUCTURING OF LARGE ORGANIZATIONS**

**BEFORE THE**

**SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT AND  
GOVERNMENT PROGRAMS**

**HOUSE COMMITTEE ON SMALL BUSINESS**

**July 16, 2002**



**Testimony by Herbert N. Jasper**  
**Executive Committee**  
**Standing Panel on Executive Organization**  
**and Management**  
**National Academy of Public Administration**  
**on Principles to Guide the Structuring or Restructuring of**  
**Large Organizations, Before the Subcommittee on**  
**Workforce, Empowerment, and Government Programs of the**  
**House Committee on Small Business**  
**July 16, 2002**

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to offer comments on principles to guide the structuring or restructuring of federal agencies.

You requested testimony from the National Academy of Public Administration (“Academy,” or “NAPA”), a Congressionally chartered organization established to assist government at all levels, with special emphasis on the federal government. The more-than-500 elected fellows of the Academy rarely take a position on legislative issues, but its panels often do upon request. This statement was prepared in consultation with members of the Academy’s Executive Committee of the Standing Panel on Executive Organization and Management (“Executive Committee”). The committee believes that it is consistent with the views expressed in previous panel projects, reports and testimonies. It is based in large part upon previous publications of the panel or of its members

My biographical statement is attached. But I’d like to review briefly some of the assignments and projects that shape my views: experience in management and organization in the Government Organization Branch of the former Bureau of the Budget; service as a Senate Committee Chief Counsel and an employee of two Congressional staff agencies; as a public management consultant; and as an Academy Fellow. I was Executive Secretary of the 1964 White House Task Force on Government Reorganization (the “Price Committee”); the project director for the Academy’s series of Presidential Transition Memoranda in 2000-2001; a staff member in the design of the Congressional budget process and the creation of the Congressional Budget Office; the project director for the Academy’s study of the National Ocean Service; and a staff member of the Academy’s 1988 study of the Executive Presidency and the 1994 study of the General Accounting Office (GAO). I have also been a chair or member of Academy project panels on such subjects as management of NASA’s Goddard Space Flight Center and Congressional oversight of regulatory agencies, and have published articles on federal management.

GAO’s October 2001 report on the current structure of the Small Business Administration (SBA) identifies a number of challenges that it poses. As requested, I shall begin with general comments on guiding principles regarding organization of federal agencies. Then, I shall review several of the challenges facing SBA, especially the ones relating to organization, in the light of the principles.

**Principles of Federal Organization.** The Academy published a paper<sup>i</sup> prepared by the Standing Panel that listed 10 principles and 14 corollaries to those principles. Following is an adaptation of those items that appear most pertinent to this hearing:

- An executive department should be charged with major public purposes, which serve all the people of the nation and should not be created to represent, or serve as an advocate for, a special group of Americans. (Independent agencies, such as SBA, often serve a narrower clientele.)
- Organization by major purpose is preferable to organization according to clientele or process.
- Each department and independent agency head should be held accountable for the quality of its management and be assisted by a senior official to whom the Secretary assigns responsibility for providing advice on all aspects of internal management.
- Legislation establishing departments or agencies or addressing aspects of general management should avoid prescribing statutory detail and should empower the agency head to make the internal arrangements best suited to the effective execution of the laws.
- Legislation that lodges functions in officers other than agency heads or restricts their authority to make adjustments to improve program management will increase costs, impair the achievement of legislative objectives, and make it harder to hold the agency head accountable.
- The President and the Congress should maintain an institutionalized capacity to keep informed of the manner in which agency heads exercise authority over internal organization and management.
- Effective program administration depends on competent, motivated public service employees who respond to the policy direction of the political leadership but are selected, retained and advanced on the basis of merit.
- Employing third parties (including state and local governments and for-profit and nonprofit contractors) to manage and operate government facilities and deliver public services does not eliminate the need for public management, it merely changes its character.

**Principles Relating to the Establishment of Departments or Agencies.** While the status of SBA as an independent agency is not specifically a subject of this hearing, the Chairman's invitation to testify states that "The focus of the hearing is the application of sound management principles ... in the structuring or restructuring of a large ... governmental ... entity..." Accordingly, it may be appropriate briefly to review criteria for establishing departments, as proposals to move SBA to a Cabinet department have been made from time to time. In 1988, an Academy panel issued a report for the Senate Committee on Governmental Affairs.<sup>ii</sup> It set forth criteria by which one could evaluate proposed cabinet status for any candidate agency. The panel listed and discussed 14 criteria as they would apply to the Veterans Administration (VA), criteria that may be too specific to the VA case for general application. Other guidelines for evaluating reorganization proposals can be found in a book by Harold Seidman.<sup>iii</sup>

I believe that the following selection of Seidman's and the Academy panel's criteria would apply to considerations of department status for a group of programs:

- Are there now in one agency, or can we combine in it, programs that are closely related in terms of achieving broad national goals?
- Would combining related programs improve service delivery and help to achieve the results intended by the President and Congress; would it save money, either for the taxpayers or for those affected by the programs, and would it prevent the domination of the agency by one constituency group or by one professional discipline?
- Would Cabinet status improve the leadership, visibility, and public support for the programs?
- Does the agency warrant independent status, whether in the Cabinet or not, as compared to other agencies; does the public interest require that it remain in the government or should it be devolved or privatized?
- What is the nature of the agency's constituency and how much will it be able to influence policies and program administration?

**Principles Relating to the Organization and Management of Departments or Agencies.** Alan L. Dean recently prepared a revised version of a paper on the organization and management of Cabinet departments.<sup>iv</sup> Most of that paper applies equally to independent agencies. Following are a number of observations in that paper that are relevant to SBA:

- Legislation dealing with agency management should avoid excessive detail in assigning functions and prescribing internal departmental structure.
- To improve accountability and program oversight, secretaries must be the real - not nominal - managers of their departments.
- The quality of departmental administration depends heavily on the field organization's design.
  - Experience favors decentralized departmental management, often through the program administrators who delegate much of their operational authority to field officials. When field officials can take final action, services can usually be provided more quickly and with a better understanding of local conditions.
  - Successful decentralization depends upon clear policies and standards to guide field officials and upon reporting, audit and evaluation systems to ensure that delegated authority has been properly used.
- No department can function well unless it relies heavily on an experienced cadre of career civil servants. Principal field officials usually should be from, and remain in, the career civil service.
- A deputy secretary who is an effective manager and a well-organized secretariat will often reduce or eliminate the need for a chief of staff as an important figure in management matters.

**Additional Guidelines That Relate to Restructuring of SBA.** SBA has experienced significant growth in number, size and complexity of its program responsibilities. Concurrently, the size of its work force has declined. It is probably time for a program review addressing the possibility of eliminating or combining programs.

As noted by Thomas H. Stanton in a recent paper,<sup>v</sup> “Reorganization is not a substitute for inadequate resources in areas such as budget, staffing, or systems.” Further, as I pointed out in an Academy paper,<sup>vi</sup>

- Reorganization is always costly and disruptive and should be undertaken only when the perceived benefits clearly outweigh the costs.
- Reorganization is a way to emphasize certain values or goals, but this means downgrading other values or goals.
- Reorganization, *per se*, seldom saves money.

Stanton also noted in the paper mentioned above that, as in architecture, “...in organizational design, form should follow purpose.” It is not clear that SBA had previously changed its structure in response to the changes in programs and methods for carrying them out. But its transformation plan (still a working document) proposes to make some such changes now.

With the theoretical principles and guidelines that I have outlined in mind, I shall now turn to a number of organizational challenges for SBA. Most are set forth in GAO’s report and possible corrective actions are described in SBA’s transformation plan. I begin by applauding SBA’s efforts to date. Of course, the plan is a work in progress and identifies a number of additional topics yet to be addressed. So what follows is intended to fill in some gaps that I perceive and to encourage early attention to the remainder of the agency’s transformation agenda.

**Field Organization** SBA’s plan is designed to make the organization more responsive to its principal customers – small businesses, rather than to its lending partners. But the first phase of the plan does not go very far in rationalizing a complicated field structure with 10 regions, 70 district and 16 branch offices, more than 1,100 centers, plus six area offices. As GAO pointed out, the last reorganization that created an Office of Field Operations did not reconcile that action with a clear re-definition of the role of the Regional Directors and their relation to the Office of Field Operations.

Substantial delegation of operating responsibility and authority to the field is desirable. However, for the various program offices at headquarters to deal directly with this large number of field offices carrying out delegated authorities is guaranteed to cause confusion and conflicts. Perhaps, creation of the Office of Field Operations was a mistake. I believe that the Regional Directors ought to be in the chain of command from Washington to the district offices. That should go far toward clearing up two challenges mentioned by GAO, *viz.*, overlapping organizational relationships and ineffective lines of communication. Additionally, the number of district offices appears excessive and some of the area offices no longer have a significant workload.

**Number of Appointees.** SBA, with up to 60 appointees, has a far higher proportion of such positions than any other agency that I can think of. Successive national administrations and Congresses have steadily enlarged the number of appointive positions in many agencies, partly in response to the popular sport of “bureaucrat

bashing,” and partly because of a mistaken belief that these positions will help the current administration “get control.” In reality, political appointees, most of whom owe their appointments to the political parties, interest groups, or Members of Congress, are more likely to resist direction from the White House and their agency heads than are the career civil servants. Further, such appointees often serve only a short time, and all have to be replaced with a change in national leadership. To begin with, I’d urge that SBA seriously consider making the Regional Directors career positions. A substantial number of the other appointive positions should also be eliminated or converted to career status.

**Congressional Influence Over Relationships and Locations.** Congress should avoid unnecessary prescriptions about internal management matters and hold the Administrator accountable for results. I was not surprised to see that the transformation plan failed to address these issues that were mentioned in the GAO report. But the Congress, in creating or chartering such organizations as GAO and the Academy, seeks additional input on many matters that the agencies might not feel comfortable addressing.

The four most significant matters appear to be: 1) the number and location of field offices; 2) the requirement that there be an Associate Administrator for Small Business Development Centers (SBDCs) with specified reporting channels; 3) the constraints on limited combination of funding for servicing disaster loans and other direct loans of the agency; and 4) the establishment of a large number of offices at headquarters.

Field Offices. Congress has not mandated the number and location of the various field offices that I think are too numerous. However, some seem to have been established in response to Congressional pressures and their termination will probably require acquiescence by Congress.

SBDCs. Constraining the Administrator’s ability to integrate the SBDC program with closely related functions of the agency is a good example of why such statutory prescriptions are undesirable. If the Administrator is to be held accountable for results, he must be able to organize the delegations of authority and the chain of command from time to time as circumstances and program priorities dictate.

Loan Servicing. With respect to disaster loans, the issue is not whether funding should be separate. It is that servicing of direct loans for disaster assistance once they have been made is often managed by the same personnel who are concerned with certain servicing functions for the few remaining direct loans under other SBA programs. And the current funding constraints complicate the financing of loan servicing centers.

Statutory Positions. At least nine positions, beyond the Presidential appointees, are required by statute. Here, I’m not referring to the programs they are responsible for. Those ought to be authorized by law. But specifying the administrative arrangements locks the positions in and prevents adjustments as programs evolve.

**Overlapping Positions at Headquarters.** The Chief Operating Officer (COO) concept has recently been imported to the federal government from the private sector. In

most Cabinet agencies, the COO is the Deputy Secretary, but it is a separate position in SBA. The Chief of Staff position has been copied in many agencies from the military and the White House. These positions and those of COOs are not statutory.

SBA also has a Deputy Associate Administrator for Management and Administration, currently Dr. Blanchard who is also COO. With the exception of the Inspector General and contracting functions, he has responsibility for the full spectrum of management activities. So it appears that SBA has four positions (two now filled by the same person) that are concerned with agency management and operations.

Typically, the Chief of Staff in a federal agency performs the significant function of “gate keeper,” sometimes performed by an Executive Secretariat or an Executive Associate Administrator. The range of internal management and administration functions assigned to Chiefs of Staff varies. I suggest that SBA should now reevaluate whether it could lodge the COO responsibility in the Deputy Administrator. Even if not, it should consider eliminating either the Chief of Staff or COO position, or combining them. But, especially in light of the large number of appointee positions, it is vital that the remaining position, however titled, be filled by a career official in order to provide the needed continuity

**Competitive Sourcing.** More competition for the performance of federal activities is part of the President’s Management Agenda. The transformation plan signals the agency’s intent further to expand its already-significant outsourcing. But, in contrast to the planned strengthening of oversight of loan programs, I did not see in the plan any recognition of the need to have sufficient numbers of highly trained staff to manage additional competitive sourcing and, most importantly, to oversee the contractors’ performance and to evaluate when outsourcing is no longer justified on a case-by-case basis. (Incidentally, I do not use the words “privatize” or “contracting out” as synonyms for “outsourcing” because I think they weaken the perception that what is contracted remains the responsibility of the agency to assure that taxpayers are getting what they pay for.)

**Conclusion.** I close by reiterating my strong support for what the transformation plan outlines. However, I urge that careful attention be paid to the rest of the identified agenda, as well as to the matters I have discussed that are not yet addressed. In particular, I urge that Congress work with the agency to minimize statutory prescriptions or other constraints regarding administrative arrangements that should be left to the Administrator.

I’d be pleased to respond to any questions.

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<sup>i</sup> Principles of Federal Organization, NAPA, January 1997.

<sup>ii</sup> Evaluation of Proposals to Establish a Department of Veterans Affairs, NAPA, March 1988.

<sup>iii</sup> Politics, Position and Power, fifth edition, Oxford University Press, pp.219-220, 1998.

<sup>iv</sup> Organization and Management of Executive Departments, NAPA, March 2001.

<sup>v</sup> Moving Toward More Capable Government: A Guide to Organizational Design, Pricewaterhouse Coopers Endowment for the Business of Government, June 2002.

<sup>vi</sup> Making Reorganization of the Executive Branch Work, NAPA, January 1997.

TESTIMONY OF MR. FRANK J. ANDERSON  
PRESIDENT, DEFENSE ACQUISITION UNIVERSITY  
BEFORE THE U.S. HOUSE OF REPRESENTATIVES  
SUBCOMMITTEE ON  
WORKFORCE, ENPOWERMENT, AND GOVERNMENT PROGRAMS  
16 July, 2002

Mr. Chairman and Members of the Committee: Thank you for inviting me here today to share with you some ideas on effective leadership principles. There is no topic that is written about more, discussed and debated more, or more critical for organizational success than effective leadership.

In defining leadership, most authors distinguish between leadership and management. Leadership is, "influencing other people to accomplish defined goals and objectives." Management is, "the efficient use of resources to accomplish established goals and objectives." Leadership is creating a vision, setting direction, aligning people, motivating people, and leading change, while Management is planning, budgeting, organizing, staffing, controlling and problem solving. [John Kotter, "What Leaders Really Do," 1990]. Both roles are essential for organizational success. My experience is that good management is a subset of effective leadership. Great leaders will normally possess effective management skills, but great managers do not necessarily have those attributes that move them to the next level of being a great leader. My comments today will focus on leadership.

In our current environment of constrained resources, both economic and human resources, effective leadership is critical for successful organizational results. I will address what I consider to be the three most critical aspects of effective leadership: Leadership Attributes; Leadership Functions; and most important, Leadership Results.

Leadership attributes or characteristics describe such things as charisma, consistency, strength of character, insightfulness, decisiveness, resolve, etc. One attribute often discussed is charisma. While charisma can certainly facilitate leadership, it is not the foundation for effective leadership. In the context of performance and results (which is the context I want to share with you), leadership attributes should be thought of as the leader's ability to inspire, facilitate, mentor, and influence others. In leading and managing people, the leader must be able to sell ideas, and shape the environment so that good people will want to excel. Some writers refer to this as motivation. Motivation is not something that leaders do to people; people motivate themselves; leaders shape the environment so that motivated people can excel.

Since leaders get things done through people, one of the most important attributes is the ability to communicate – to successfully sell a vision of the future. Leaders communicate, and the people they lead move themselves to action. [Brent Filson, "The New Leadership," 1994] The tough challenge is both in deciding what message to communicate, and then how to sustain the message over time. The leader must decide and then be consistent with communicating right message. Consistency in



communications is essential for building credibility and trust with customers, employees, managers, and stakeholders.

It is not only essential to send the right message but also to target the right audiences, especially in regard to critical initiatives and strategic direction. Effective communication is how the leader ensures his or her strategic direction is understood and is supported by all employees. Communication also ensures that the employees have ownership and are aligned with the organization's mission and vision. The message must be clear, and it should create a vision for the future. What are the leader's goals? What outcomes does the leader plan to achieve? What are the leader's expectations for the organization? Effectively communicating, thereby creating and sustaining a highly motivated workforce and leadership team, is a key factor that often distinguishes a marginal organization from one that delivers world-class performance.

In addition to leadership attributes, there are also critical leadership functions that must be performed: establishing direction and managing for results; strategic planning; leveraging technology and organization redesign; and maybe the most important function – selecting, aligning, and empowering the right leadership team.

The leader is responsible for establishing direction and managing the organization. Based on the leader's belief about the future, he or she must provide a clear vision of the future and a way to translate the vision into concrete performance results. The leader must also develop a long-term perspective to shape the organization's future.

This provides the mission, vision, core competencies, values, strategic goals and strategies to attain them - all captured in this long-term perspective. To drive change and adopt best practices; the organization's leadership must develop an effective, results-driven strategic planning process and be willing to embrace organizational redesigns, and leverage appropriate, enabling business technologies. A deliberate strategic planning process that links performance outcomes with accountability for results provides the essential tools and oversight to guide the organization into the future. Additionally, the strategic planning process cannot be static. It must have a systematic feedback process to readily adapt to changes in the operational environment – to know what worked and what did not.

There are many strategic planning frameworks and guidelines available for organizations and leaders to use. Many share some common principles that link planning, budgeting, execution, and performance tracking. The Government Performance and Results Act (GPRA) provides this type of framework. The GPRA mandates that Federal Agencies develop a performance mindset and manage for results. Federal agencies must strategize, communicate, manage, and track results. They must develop common measures of performance. This provides a basis for accountability and focuses the entire process on results.. Clear linkage between plans and actions is essential. Too often strategic plans are drafted and approved, and then become dust collectors that never influence organizational behavior or results. To avoid this very common outcome, the relevance and continued utility of the strategic plan must be constantly managed and renewed as necessary.

Technology is a powerful enabler, a tool that has the potential to facilitate the leaders drive to successfully transform an organization. But technology alone is never the answer. Best practices in organizational redesign enabled by the smart application of technology can have a powerful impact on an organization's productivity and eventual outcomes. Since organization and enabling technology redesign are part of the same integrated process, they should be thoughtfully considered together. Simply imposing new technology on old organizational structures and old business practices will normally result in a more costly, but still inefficient organization. To successfully transform an organization, the customer must be placed in direct line-of-sight with regard to all organization re-design activities and technology decisions. Using an enterprise-wide perspective and maintaining a customer-centric focus will avoid sub-optimizing the full potential of the transformation and organization redesign goals.

Organization redesign alone is normally not enough. Achieving solid results normally requires the leader to deliberately address and evolve the organization's culture. Culture is the accepted, existing practices and social norms of an organization. Culture is how an organization routinely thinks, acts, and conducts business. It impacts how an organization responds to customers and stakeholders. The leader must value, nurture and reward collaboration and efforts to positively change the culture, to eliminate outdated practices, and to significantly improve internal processes and mindsets. Moreover, if the goal is to create a high-energy, customer-focused organization, the leader must provide opportunities and incentives for people to change from old to new paradigms.

Transformation is fundamentally about people--about changing old mindsets. Successfully transforming the organization's culture will significantly enable the organization to reach its full potential, to achieve strategic and competitive advantage, and to facilitate real performance improvement.

People matter! People are an organization's most important asset. In their different positions and activities, people are the heart, soul and lifeline of organizations. People ultimately determine an organization's success or failure. An absolutely critical leadership function is selecting, aligning, nurturing, and empowering the right people to fill key leadership positions. In his best selling book, *Good to Great*, resulting from over five years of in-depth research with 28 leading-edge companies, noted author Jim Collins advocates selecting, aligning, and empowering a leadership team even prior to setting the direction. Using an analogy, he states that "good to great leaders first get the right people on the bus, the wrong people off the bus, and right people in the right seats."

For organizational success, selecting the right people and placing them in the right positions are important; however, aligning the leadership team is not only important but vital. Leadership alignment involves all actions to ensure the leadership team has collective ownership of the mission, vision, goals, and direction set by the senior leader. This is paramount for long-term organizational success. Leadership alignment is about focus, and getting the key leadership team to move and act with one voice, one plan, and one play book.

One successful and relevant example of leadership and organizational alignment is the use of the five overarching goals for the acquisition, technology, and logistics community by the Honorable E.C. "Pete" Aldridge, the present Under Secretary of Defense, Acquisition, Technology, and Logistics (USD(AT&L)). These five goals contribute directly to those set forth by the President and the Secretary of Defense. One of the goals is to improve the health of the industrial base. Included in that goal is the development of qualified small businesses as prime contractors and subcontractors, recognizing their vital importance to the Defense industrial base. In this regard, Mr. Aldridge established the Small Business Reinvention Program<sup>1</sup>. Each department and defense agency, aligned with improving the industrial base goal, is responsible for annual small business improvement plans and achieving rigorous annual performance targets.

In my specific case, to align and be consistent with Mr Aldridge's goals, the University met with Mr. Fred Armendariz, Associate Deputy Administrator for Government Contracting & Business Development (on 25 June 2002) to discuss possible strategic partnership opportunities between the Small Business Administration (SBA) and the University. Mr. Frank Ramos, Director, Department of Defense (DoD) Office of Small and Disadvantaged Business Utilization in USD(AT&L), and I are jointly working to establish this strategic partnership with SBA as quickly as we can. The visit was well received and we are currently drafting a Letter of Intent (LOI) with the SBA to structure opportunities for them to participate in our acquisition training. These are all activities directed at organizational alignment, as Frank Ramos and I align to support Mr. Aldridge's over-arching goals. Subordinate level leaders must be empowered to act with

the full support of the organization's top leader. They are usually the daily operational link between the senior leader and the organization. These subordinate leaders must fully understand, embrace, and advocate the organization's strategic direction, the strategic plan, and its implementation. No matter how talented the leader, if the leadership team is not aligned and empowered, the organization's mission success, results, and ultimate outcome will suffer.

When all is said and done, leaders are judged by their results – the outcomes of their leadership. Did they make a difference? Did the leader take the organization to new heights? Were they successful in developing subordinate levels of leadership? Did the leader add value to the organization and change it for the better - taking what existed and shaping it to what it could or should be. In discussing leadership, I have commented on what I believe are the most relevant attributes and key functions necessary to succeed in today's dynamic environment. However, leadership is significantly more than these attributes and functions. Effective leadership is more about delivering transformational change and constant improvement - not accepting "good as being good enough." The effective leader is the catalyst and single most important asset for driving an organization from its current state to greater organizational performance. In the final analysis, successful leadership is judged by results and outcomes.

In closing, I am honored to be here today and to have an opportunity to work with the hardworking, and dedicated members of the Small Business Administration, and the Department of Defense Acquisition, Technology and Logistics workforce. I appreciate

the support provided by Congress and look forward to working with this Committee in any way possible to realize our common goals for a viable, healthy, and strong small business program. I am happy to address any questions you may have.

<sup>1</sup> Mr. Aldridge's memo to secretaries of the military departments and directors of defense agencies on "Small Business Program Reinvention" dated May 16, 2001. Available at <[www.sadbu.com](http://www.sadbu.com)>.