Capacity Analysis of Georgia Minority Contractors

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Minority-owned businesses face an assortment of problems. Since most of these businesses are small, they must deal with the problems applicable to all small businesses. In addition, minority-owned businesses are confronted with problems that are unique to minority ownership.

Despite extensive federal legislation and other efforts since the late 1960's to promote and assist minority ownership in the construction industry, growth, in number of firms as well as receipts, has been slow. The purpose of this study is to examine the problems and difficulties faced by minority business enterprises (MBE's) engaged in construction contracting in an attempt to identify those major barriers to MBE growth within the industry. Two often identified and interrelated problems, financial difficulties and contract bonding difficulties, are the focus of particular attention.

Of a total population of 226,504,825 people in the United States, 188,340,790 people are white (83.15%) and 38,164,035 are nonwhite (16.85%). In addition, 14,604,883 people of Spanish origin (6.45%) reside in this country. (It should be noted that the Spanish origin category does not refer to race. This 6.45% of the population may be white or nonwhite. Thus, at least 16.85 percent of the population, if not more, may be thought of as having minority status in terms of numbers.¹

Different authors use the word "minorities" to mean different things. Historically, minority status was inclusive of all non-whites. Some studies
have addressed minority issues from the frame of reference of blacks only. While some studies have considered any population segment that was small on a relative percentage of total population basis to be minorities, others make no reference to numbers. For example, Louis Wirth's definition of minority groups was stated in 1945 as follows:

A minority group is any group of people who, because of their physical or cultural characteristics, are singled out from others in the society in which they live for differential and unequal treatment, and who therefore regard themselves as objects of collective discrimination.

Such a definition could include various groups.

For the purpose of this study the term minority is consistent with the definition of the U.S. government and refers to the following groups: Blacks, Indians (including Eskimo and Aleut), Asians (including Chinese, Japanese, Filipino, Koreans, Hawaiians, etc.), and other minorities. The other minorities category includes persons of Spanish/Hispanic origin although it should be noted that Spanish/Hispanic origin individuals may be any role. Women are not considered minorities on the basis of their sex alone in this study.

Minority-owned businesses (henceforth known as Minority Business Enterprises, or MBE's) are grossly underrepresented in the business sector of this country. While minorities make up almost 17 percent of our population, MBE's account for only 5.7 percent of the total number of sole proprietorships, partnerships and small (Sub-chapter 5) corporations, and for only 3 percent of total gross receipts of such firms.

The MBE is generally a small business. The latest report of the Bureau of the Census indicated that 52.5 percent of MBE's earned gross receipts of less
Table 1-1
Selected Data for Minority-Owned Firms

<table>
<thead>
<tr>
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<th>All Firms</th>
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<tr>
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<td>Firms</td>
<td>Gross</td>
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<td>(Number)</td>
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<td>($1,000)</td>
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<td>All Industries</td>
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<td>Construction</td>
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<td>12,102</td>
<td>1,613,415</td>
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<td>Manufacturing</td>
<td>12,528</td>
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<td>5,518</td>
<td>1,842,011</td>
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<td>Transportation &amp;</td>
<td>36,527</td>
<td>1,060,422</td>
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<td>556,189</td>
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<td>Public Utilities</td>
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<td></td>
<td></td>
<td></td>
<td>504,233</td>
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<tr>
<td>Wholesale Trade</td>
<td>9,382</td>
<td>2,030,700</td>
<td>2,493</td>
<td>1,788,452</td>
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<td>Retail Trade</td>
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<td>Finance, Insurance</td>
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<td>2,802</td>
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<td>&amp; Real Estate</td>
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<td>290,889</td>
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<td>Selected Services</td>
<td>234,321</td>
<td>6,301,552</td>
<td>37,985</td>
<td>4,038,718</td>
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<td>Other Industries</td>
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<td>458,100</td>
<td>1,859</td>
<td>210,634</td>
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<td>Industries Not</td>
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<td>348,123</td>
<td>898</td>
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<td>18,332</td>
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<td>Classified</td>
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<td>264,313</td>
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than $10,000 annually, 71.5 percent earned less than $25,000 annually, and 82.7 percent earned less than $50,000 annually. In addition, it should be noted that 81.3 percent of the firms reported upon had no paid employees (accordingly, the related literature frequently refers to the "mom and pop" operation). Interestingly, this substantial majority of MBE's generates only 28.0 percent of the total gross revenues earned by all minority-owned firms. 4

Since most MBE's are in fact small, it seems that one must examine the problems faced by all small business as a starting point for determining the specific problems faced by MBE's. It appears that most MBE's face the problems inherent in a small business, in addition to those problems peculiar to the minority business sector.

Statement of Problem and Purpose of Study

Minority Business Enterprises are underrepresented in federal, state and municipal construction contracts as well as private sector projects. This underrepresentation exists even though numerous laws, regulations and programs have been enacted to help solve the problem. This report examines the history of minority construction programs and the progress, if any, that has been accomplished in this area. In addition, a survey is used to identify current problems of a set of Georgia minority contractors. Through the use of the survey, the researchers hope to be able to determine why these contractors have difficulty and what can be done to help them become or remain profitable. This goal is especially relevant for the state of Georgia because of the large number of minorities that live in the state.
According to the 1980 census, 1.57 million citizens of the state of Georgia were minorities. This figure amounts to 28.8 percent of the state's population. Of these 1.57 million persons, 1.46 million persons were black. Only four states have more black Americans in the United States than Georgia. These states are California, Illinois, New York, and Texas and each of them has a total population at least twice as large as Georgia. Given the large size of the minority population in Georgia, if the state is to grow and prosper, minority businesses must also grow and prosper. It is the objective of this study to help them achieve that goal.

Small Business Problems

Since the MBE's have many of the problems faced by all small business persons, it is useful to examine their problems.

Vozikis [1979] presented an excellent treatment of the problems faced by the small business owner. In addition to his statement of their major problem (inability to anticipate and prepare for crises before they occur), he listed the following ranked list of functional problems as shortcomings to the small firm, by frequency of citation by small business theorists, researchers, and practitioners:

A. GENERAL MANAGEMENT

1. Dependence on survival of principal manager.
2. Neglect of selection and supervision of personnel.
3. Lack of planning and information.
4. Lack of management development.
5. Lack of management techniques and coordination.

B. OPERATIONS

1. Lack of operating experience in product buying, pricing, and handling finances.
2. Poor recordkeeping and control.
3. Inventory mismanagement (not the right kind or amount).
4. Wrong location.
5. Competitive weakness and diseconomies of scale in purchasing, operating, etc.
6. Heavy operating expenses and overhead.
7. Wrong attitudes toward the business operation (avoid hard work and responsibility).

C. FINANCE

1. Lack of total capital.
2. Lack of financial planning and use of financial information/ratios.
3. Lack of working capital.
4. Poor credit practices and overextension of credit/bad debts.
5. Slow collection of accounts receivable.
6. High debt level.
7. Improper application of capital.

D. MARKETING

1. Non-aggressive selling, promotion, and advertising.
2. Inadequate sales.
3. Lack of concentration on result areas of products, markets, and technology.
4. Lack of research and development and product upgrading.
5. Poor knowledge of markets.
6. Poor knowledge of competition.

According to Kuehn (1973), small businesses have quite an array of difficulties. They lack management expertise. They have little or no financial or accounting management knowledge necessary to control their business. When prime rates hover near 20 percent, this aspect is very important. Cash flow management is much more important in 1981 than 1973 when Kuehn did his study. During the last 50 years, the prime rate was never over 12 percent on an average year basis until 1979. In 1979 it was 12.67 percent and in 1980 the average prime rate was 15.25 percent. The 1981 average prime rate will even be higher. A 20 percent prime rate is not necessarily bad if a firm can earn rates of return higher than the prime. However, small businesses have difficulty doing it. Average rates of return on equity by manufacturers in 1980 were about 14 percent.
Not only is the prime rate high in nominal terms, it is high in real terms. Recent (Summer, 1980) consumer price data have reflected an inflation below 10 percent. With a 20 percent prime rate, the real rate of interest is about 10 percent. This difference is practically unprecedented in U.S. history. Of course, one can say the interest is tax deductible. However, if you are making little or no net profit, income taxes are not a relevant issue.

Besides financial management problems, the small business person has location problems. Financial resources are often not great enough to have a business close to heavy traffic areas. In the construction business, this problem is not as critical as in retailing and wholesaling.

Lack of working capital is frequently mentioned as a problem. Stated another way, one could say too much is invested in fixed assets. Not only must the firm have the fixed assets to accomplish a job, but the working capital to purchase materials and labor must be available. This situation is often the case in construction when the small contractor must pay for labor and materials before funds are received. The contractor is in a negative cash flow situation, and without working capital, problems arise. While a bank loan could be a solution, many difficulties exist with that approach and the 20 percent prime rate is just one. Often the MBE does not have any assets that can be used to secure the loan. The vehicles in the business will be pledged to finance them and the other equipment may be of little value. Often the only asset of tangible value will be the equity in his or her personal home.

Still another problem is a tendency to grow too fast or to take on a job that is too large. The working capital problems mentioned earlier are
magnified in this case. Expansion needs to be orderly and planned. Too much growth, like driving too fast, can kill.

Once small businesses develop some profit, frequently, the owner begins to withdraw too much money in the form of salary, cars, travel, and entertainment expenses. Advances are made to the owner. Since the small business person controls all or most of the stock (if any), there is no outside control on these activities. Often, it is said that the owner lives out of the business. Personal and business expenses are mixed and little or no financial control exists.

In summary, it can be said that the small business person often fails to anticipate the future, whether it be a crisis or a change in the business environment. Little time is spent on planning and determining the path the firm should take.

Minority Business Problems

Minority businesses have all of the problems that any small business person has. In addition, they have a set of problems of their own. Various problems of minority business enterprises have been stated. The following represent a list of often cited problems:

1. MBE's have inadequate training, education, and business expertise needed to succeed in business.
2. MBE's are generally small and marginally successful (less profitable than their majority counterparts).
3. MBE's are concentrated in retail and service industries and poorly represented in other areas.
4. MBE's have financial difficulties and lack access to capital markets.
5. MBE's generally are relegated to minority neighborhoods, hence poor markets.
In many situations they have no business heritage or tradition in their background. They have few role models or success symbols to follow. Everyone has heard of O. J. Simpson or Julius Erving, but who has heard of Herman Russell. This man happens to be one of the largest minority contractors in the United States and operates a firm with over $50,000,000 in revenues. This business tradition trait should not be understated. Factors like this one are what keep a person working when operations are difficult and success seems unobtainable.

While most small business persons have a lack of technical training, many minorities, until the 1970's, did not have the opportunity to obtain basic educational skills. Segregated school systems did not provide equal educational opportunities at the public school level and higher education was even more difficult to obtain. These educational deficiencies have greatly reduced the number of persons who could successfully operate a business. Even today, one sees very few minority students in Colleges of Business or Engineering.

Besides educational barriers and lack of a business tradition, social factors have hindered minorities. Traditionally, it has been difficult for minorities to join trade unions. Without union membership, it is difficult to obtain work in the skilled trades. Since a natural development pattern for a contractor is to go from a member of a trade group to start his or her own company, union membership is very important. If one cannot join the union, it is difficult to learn the trade skills necessary to form your own plumbing, sheet metal or electrical firm. Robert W. Glover points out that the union problem has been a larger problem in the South than in the non-southern areas. Since this study involves the state of Georgia, this fact is relevant and could impact the study.
Another item that seriously impedes the minority contractor is bonding. This problem arises when a contractor develops enough expertise to do commercial and governmental work. As long as only residential work is performed, no bonding is required.

When the MBE tackles these larger jobs, the owner or general contractor will require a bond. Bonding companies place great emphasis on financial strength. They like C.P.A. certified statements, a tract record of successful projects, and belief that the contractor can do the job. From the surety's viewpoint, losses to the surety are rarely supposed to occur. If the contractor fails to perform, the surety responds up to the bond penalty (bond limit). Then the surety will attach the assets of the contractor. If the surety has underwritten the contractor correctly, there should be assets to attach. Consequently, if you have very little net worth, you are not an attractive client from a surety underwriter's viewpoint. The bonding problem will be examined in detail in a latter section of this chapter and is a major section in the results chapter.

Government Action to Overcome Obstacles Faced by Minority Enterprises

During the last decade, the government sector of our society has tried to improve the economic health of minority contractors. Through such items as the Civil Rights Act of 1964 and Executive Orders 112456 (1964), 11454 (1969), 11518 (1970), and 11625 (1971), the federal government has tried to give minority firms a higher probability of starting and surviving. However, it is worth noting that a federal law written in 1935 has been one of the biggest obstacles in the development of minority contractors. The Miller Act required a contract bond on any government job over $2,000. This requirement protects the federal government as well as suppliers and laborers. However, it was written in 1935
when on an average basis construction costs were 88.6 on a price index where the year 1926 is 100. The same index for June, 1980 was 1092. Thus, prices are 12.32 times higher in 1981 than in 1935. A structure that cost $10,000 in 1935 would cost about $123,200 today. Such a low threshold requirement for bonding has been too low for many years and the recent efforts to raise it to $25,000 or $50,000 have been late. Based on price level changes since 1935, the Miller Act should have a bonding requirement starting at $24,640 which is quite close to the $25,000 limit asked for by the American Insurance Association on behalf of firms who write 70 percent of all surety bonds, the Surety Association of America, the GSA, and the SBA. Actually, the SBA would have liked to have had limit set at $50,000 and the American Insurance Association at $10,000. The $25,000 limit seemed acceptable to most parties such as the Surety Association and the GSA. With this higher limit a much greater number of federal contracts would be open to minorities. Congressman Moorehead from Pennsylvania has stated that the federal government let 10 billion dollars of contracts with a value of less than $50,000 in 1977. Consequently, one can see that a Miller Act with a $25,000 or $50,000 limit would open new markets to small minority contractors. Given the various parties needs and concerns, it would seem $25,000 is a reasonable limit and was the new limit established in November, 1978. With this higher limit, minorities should be able to obtain more federal contracts. Bonding will no longer be an obstacle for contracts under $25,000.

In the area of federal procurement, progress has been made. All firms with federal contracts in excess of $10,000 must make efforts to include small businesses and those owned by minorities. Contracts that exceed $500,000 require written plans and percentage goals for subcontracting with minorities. Federal
loans, loan guarantees and grants to minority firms have increased from 850 million in 1977 to 1.8 billion in 1979. This amount represents an increase of 110 percent.

Under Section 8 (a) of the Small Business Act, the SBA can make 100 percent guaranty loans. The Minority Business Development Agency aids in company development and market research. As a result of these efforts, federal contracts awarded to minority-owned businesses rose from 1.1 billion in 1977 to 3.1 billion in 1980. These figures represent an increase from one percent of total procurements to three percent of total procurements. If this rate of increase can be maintained, then the 1990 goal of ten percent will easily be reached. Actually the rate of growth will decrease in the future because if the rate of the last three years continues, the entire federal procurement budget will be supplied by minorities and that is not very likely to happen. If a billion dollar increase per year occurred, the goal would be reached.

While the Miller Act modification may not have affected this dramatic increase, it should be noted a great deal of progress has been made since the bonding requirement was changed.

Contract Bonding

Whenever the topic of minority contractor and government contracts are discussed, the topic of bonds and bond requirements quickly arise. Because of the previously mentioned Miller Act, federal contracts have required bonds on all contracts over $2,000 from 1935 to 1978. Consequently, to perform federal jobs one often needs to be bonded and it is difficult for any small business contractor to become bonded and perhaps even more difficult for minority contractors.
Without construction bonds or their financial equivalent, contractors are restricted to residential jobs and small commercial contracts.

The idea behind a bond is that the insurance company, in consideration for the premium received, will make a financial commitment to the building owner that if the contractor does not perform the job, the surety will. Actually, the surety will have someone else do the job or pay the owner his or her financial loss. The surety's financial obligation is no greater than the bond penalty (limit). Nor does the surety actually have to perform the task the contractor did not finish. The penalty can be paid by the surety and the surety can walk away from the owner. In most cases since part of the contract has been completed, it is more economical for the surety to have the job finished rather than pay the face amount of the policy.

In order to protect itself, the surety must investigate the contractor's ability to perform the specific task. In making this analysis, the surety will examine the contractor's character, capacity, and capital.

By character, it is meant, does the bond applicant have the leadership, motivation, and integrity to complete the job even if difficulties arise. A contractor's true character is not known until adversity arises. Does the contractor finish a job that will cost more to complete than the contract price or does he or she walk away and let the surety pay? If a walk is taken, the surety would say the contractor lacks character. Implicit in this discussion on character is the fact that the contractor has a work history. If no such history exists, it is difficult to judge character.
In the area of capacity, the bond underwriter is looking to see if the type of work to be done is in the contractor's area of expertise. The contractor could be a fine fencing man but have little experience with sheet metal. A more common example is a person who has previously done only residential work and starts to do commercial jobs. It is much more difficult to do the brick facing of a four story building than a one story dwelling. The capacity subject also involves a contractor's relationship with sub-contractors, if any. Does the contractor have reliable subs? Does he or she pay them on time? Can they perform the task at hand? All these questions need to be asked and answered before the bond underwriter can make an intelligent decision.

Besides these factors, information on type of tools owned or rented needs to be determined and are these items suitable for the proposed job. The condition of the tools is important as well as whether they have been paid for or whether they are leased or financed.

A third factor in the capacity area is the amount of work the contractor has going. The problem of over extension is ever present. Trying to grow too fast is a major problem with many small businesses. While a contractor could easily handle one $25,000 job, six such jobs at one time could drive the firm to insolvency. A final concern in the capacity area is the contractors administrative ability. Does the contractor have the general management and financial skill to operate the business? The firm should be able to determine its costs for various operations and to monitor them as expenses occur. If cost controls do not exist, insolvency may soon be near.

The final trait to consider is capital and it is the one on which most underwriters are said to place greatest emphasis. The surety is providing
a financial guarantee to the owner (government agency). If the contractor is financially weak, the surety could easily lose money. Since premiums generally run about one percent of the bond, the surety is not in a position to risk very much.

This capital factor gains importance because it is fairly easy to determine as compared to capacity and character. To measure the latter two traits requires much expertise and time. Since time is money and small contract bonds involve little money, there is little on-site investigation. If a certified statement is obtained from a CPA, credibility can be placed on financial data without the underwriter leaving the office. Likewise, signed statements by the contractor's banker provide similar information. Of course, many small contractors do not use CPA's and only have limited access to banks. Consequently, the credibility of their data is questionable. Also, in many cases, few financial resources exist. The emphasis on capital by the bond underwriter and the lack of it by the small contractor cause many of the problems in the bonding of small contractors.

Variables That Help Surety Underwriters Select Risks

Several studies have been performed to determine what financial data is used in making surety underwriting decisions. One such study by Cooper\textsuperscript{10} used multiple discriminate analysis to analyze the problem. In this study, he found five variables provide the most information. These variables, in order of importance, are as follows:

1. Accounts receivable/sales per day
2. New working capital/dollar value of largest contract worked during the fiscal year.
3. Sales/tangible net worth
4. Number of contracts worked during the last fiscal year that were larger than net working capital

5. Number of 'slow' items in the payments section of the contractor's Dun and Bradstreet Report/total number of items in the payments section of the contractor's Dun and Bradstreet Report

All these variables are generally available for small contractors except number 5 and it is the least important. The use of such discriminate functions could be of use to bond underwriters when deciding to accept or reject small contractors. In Cooper's study, firms that were not good risks have higher values for variables 1, 3, and 5 and lower values for variables 2 and 4.

In an earlier study by Filippone, six variables were identified as being important.

1. Dun & Bradstreet rating
2. Sales growth ratio
3. Rate of return on net worth
4. Trade payment rating
5. Experience (years of operation) of construction firm
6. Bank credit line/net worth

Filippone used discriminant analysis like Cooper and the variables are given in the order of importance. In this study the Dun and Bradstreet rating is the most important. While that rating may be good to analyze larger contractors, it is of little use with smaller contractors. They have no such ratings.

Interesting enough, several of the variables in Philippone's study behave in a nontraditional manner. Firms with larger credit lines and higher returns on equity, failed. Also, firms with the highest sales growth failed.
most often. As might be expected, the more experienced the contractor, the less often failure occurred and the better the trade payment record, the more often a firm did not fail.

It should be noted that Filippone sample firms came from Northern Ohio and were fairly large companies. Average equity among the firms was $600,000.

From reviewing these two studies, it seems growing too fast can be as financially dangerous as growing too slow. While fast growth may generate short run profits and high rates of return on equity, it places great pressure on working capital needs. As working capital is exhausted, the firm enters a liquidity crises that can lead to failure.

**Government Bonding Programs**

Because of the problems associated with small contractors obtaining bonds, the federal government started a Surety Bond Warranty Program in 1971. This program helps provide bonds on contracts up to $1,000,000 and up to 90 percent of the losses incurred are guaranteed by the SBA. In FY 1980, this program involved 41,000 surety bonds with nearly 20,000 bonds actually being issued. These bonds provided coverage for about $1.8 billion.

In November of 1977, the SBA revealed some interesting statistics on the program. There was a 6.5 percent default rate with most defaults occurring on performance/payment bonds. The dollar amount of loss was about two percent of the value of the contract awarded. Surety firms normally charge a premium equal to about one percent of the contract. Thus, the experience of this program
is much worse than what one would find in traditional markets. If losses were 2 percent of contracts and premiums were 1 percent of contracts, then the loss ratio would be 200 percent. No private surety could write at this level of losses very long. For if you added the expenses of conducting the surety operation, the combined expense and loss ratio would be over 200 percent. Traditionally, surety firms have had loss ratios of 40 percent to 50 percent. In comparison to the SBA Program, private firms have loss ratios equal to 20 to 25 percent of the SBA ratio. Stated another way, the SBA loss ratio is 4 to 5 times higher than private sureties. These figures indicate that at least the SBA Program is protecting high risk contractors. Of course, there is bound to be some adverse reflection and private insurers and/or agents may be guiding less desirable risks to the SBA Program.

One potential problem with this program is the lack of minority participation. Only 18 percent of the bonds in the 1977 study were issued to minorities. Also, the incurred loss per defaulted bonds was twice as large in non-minority-owned firms. These data suggest that the minority contractors in the program are better risks than the non-minority contractors. It would seem that traditional markets might have higher standards for minorities than non-minorities, but that is really only conjecture since there is not enough information to prove that position.

As might be suspected, the major reason for failure among the SBA guarantee firms was weak management. About 60 percent of all losses were due to financial mismanagement. Again, the need for tight financial control is seen.
In December, 1979, the SBA surety bond guarantee program again came under review. This examination was conducted by the Government Accounting Office (GAO). In this analysis, several problems were identified by the GAO:

1) information gathered to make underwriting decisions was based on limited reviews of incomplete or erroneous data; 2) the data were outdated; 3) specialty surety companies working with the SBA were expensive and had little incentive to minimize losses; 4) the bond guarantee program graduates few contractors into regular surety markets; 5) the SBA was not providing management assistance to contractors. The GAO stated that the program had 6375 defaults as of April 30, 1980 and net losses of all revenues of 129.3 million since it started in 1971.

Not only have there been problems with the SBA management, but it seems some of the specialty surety companies such as International Fidelity Insurance Company have had problems of its own with several state insurance departments. The Better Government Association has gone as far as to say that International Fidelity had close links with organized crime.

In reply to the GAO Report, William H. Mauk, Deputy Administrator, Small Business Administration stated that the GAO study was limited in scope but it had identified some management problems in the program and the SBA was reviewing its procedures and method of operations. With respect to efforts to minimize losses, he stated cost problems were involved with the close monitoring of contractor job performance. However, through the office of the Inspector General, greater effort would be made in this area.

As regards the problem of nongraduation from the guaranty program, he disagrees with the GAO interpretation of the law. He does not feel graduation
is a requirement of the law. Contractors have to insure higher bonding costs when they stay in the program. If normal markets were attractive, there is plenty of economic incentive to leave the guaranty program. To the present researchers, it seems that there is probably little difference in the help given the contractors and some of the farm subsidy programs. In both cases, the parties involved are asking and receiving government aid to protect them from market conditions.

As regards management assistance, he rejected the GAO's specific complaint but admitted that long-term management assistance was desirable. However, such help requires specialized knowledge and he implies it would take increased funding to perform it.

Operating Procedures and Results of Surety Insurance

In 1980, private surety companies had earned premiums of about $822 million dollars. In 1979, the figure was $724 million. Thus, the growth from 1979 to 1980 was 13.5 percent. During the same time period, there was little growth for the property-liability industry. For the industry total premiums were $86.6 billion in 1980 and $86.5 billion in 1979.

When one examines the size of the industry and compares it to the size of the surety market, it can be quickly seen that surety premiums are not a major portion of the property-liability insurance industry. In 1980, surety represented .9 percent of the industry and .8 percent in 1979. Consequently, bonding may be very important to contractors and may be a matter of life or death. To the insurance industry, it only represents about one percent of earned premiums. From a financial viewpoint, it is not a line of business that will make or break
the industry. If contractors feel that insurance companies do not spend enough time on their needs, perhaps the relative small size of this line of insurance explains some of that neglect.

From a cost viewpoint, the surety business is fairly expensive. From 1970 to 1979 the surety line had an expense ratio greater than 50 percent. Most of this expense is for commissions to the insurance agent who sells the bond. The average commission rate on bonds for 1979 was 27.7 percent. Only credit life had a higher commission rate. So, while the premium volume to the industry is not real important, an agent can earn high commissions selling bonds. For instance, the average commissions on workers' compensation insurance is 5.3 percent. Thus, per dollar of insurance sold, an agent makes five times more money on bonds than on workers' compensation. Given the attractive commission rate on bonds, agents should be able to afford to spend more time on handling bond accounts, and they do.

It is the agent who acts as the major source of data for the bond underwriter. The agent helps the client to complete the bond application and does field underwriting for the surety. The agent must make a business judgement about the contractors' character and capacity. On small bonds it is doubtful the underwriter will ever see the contractor since the cost of a field inspection might be greater than the entire premium.

The major drawback to the agent in the bonding process is the risk involved. Unlike other types of insurance, the agent must not only get the client's business, but the client must get the contract. A contractor needs a general liability, an auto policy and property insurance whether a given job is obtained or not. However, bonding is different. The agent must complete the
bond application, perhaps do some field underwriting and submit the policy. With the cost of the bond known, the contractor submits the bid and loses the job. All the agent's time has gone for nothing. Rather than taking a gamble with a new contractor, the agent would have been in a better position if he had tried to sell some other type of insurance. To add to the problem is the fact that bond insurance is a specialty line and most agents do not have much experience with it. There is a good chance that if a minority contractor approaches a minority insurance agent for a bond that the agent does not know how to handle the bond. So the contractor must go to a strange agent who may or may not be willing to spend the time needed to put together a bond application.

Finally, in terms of profitability, the surety business has been less than a money maker for the insurance industry since 1974. From 1974 to 1979 the industry only made an underwriting profit one time and that was in 1979. For the decade of the 1970's the industry had an underwriting loss of $88 million on a premium volume of $5.7 billion dollars.\(^{15}\) When profits are not high or nonexistent, an industry is not very likely to accept high risk clients. If so-called good risks are producing losses, one does not need to add to the problem by accepting marginal business.
Footnotes


4. Ibid.


Chapter 2
Relative Literature

Introduction

Although a substantial volume of literature addresses minority-owned businesses, their problems, and federal efforts to help overcome the barriers to expanded minority business participation, much of it is concentrated on historical roles of blacks. This historical material is frequently repetitive with many authors utilizing early works of DuBois, Harris, Frazier and others. However, the literature of the past decade becomes concerned with empirical findings and analysis of data and federal program results. The works of Bates [1973], Doctors and Huss [1973], Dominquez [1976], Glover [1972, 1978], and Yancey [1974] were particularly helpful. The President's Council on Minority Businesses Enterprise [1971] provided an excellent presentation of the rationale for a federal minority assistance effort, a brief historical overview and a summary of recommendations of a decade ago.

The second section of this chapter relates to the problems and barriers faced by the minority business community. Various background studies were utilized for the information in addition to the descriptive information normally used as a starting point in the various analyses of government programs and prescriptive reports.

The third section of this chapter focuses upon the problems faced by a particular component of the minority business community, construction contractors. The literature addressing this specific sector is viewed within three subdivisions: financial problems, surety bonding problems and other problems.
While related private empirical studies were utilized to discern the problems of minority contractors, the preponderance of material addressing this issue was contained in reports of various governmental agencies including those of the President's Advisory Council on Minority Business Enterprise, U. S. Small Business Administration, U. S. Department of Commerce, U. S. Department of Housing and Urban Development, and particularly, transcripts of hearings before many House and Senate Committees and Subcommittees.

The final section of this chapter views selected federal programs aimed at alleviating the difficulties of minority contractors and designed to encourage and assist in expanding minority contracting with the federal government. Sources for this information include private analyses, U. S. Commission on Civil Rights and various government documents.

Blacks comprise the largest subset of the total minority population of this country (over 69 percent), and due to their historical role (i.e. slave status in many regions prior to the Civil War) perhaps the most visible and focused upon. Certainly, their dominant role in the Civil rights struggle helped to establish blacks as the most obvious minority group. In addition, earlier uses of the word "minority" included blacks only. As a result, much of the literature relating to minorities focuses upon the black population.

While each minority group faces certain problems peculiar to membership of that group, many of the problems attributable to minorities are universal. They are shared, to one degree or another, by all minorities. Thus, some of the literature relative to problems of blacks and black-owned businesses
will be generalized for all minorities, with problems characteristic of specific minority groups otherwise noted. This approach suits this study, because Georgia minorities are primarily blacks.

Related Studies--Minority Problems

Although the minority groups of the U. S. have suffered from discrimination, historically, there have existed minority entrepreneurs. These minority business owners faced formidable barriers to growth of their businesses. Harris [1936] in his study of black banks, provided some historical insight of problems facing black-owned businesses. He contended that black enterprise existed before the Civil War and perhaps as early as the American Revolution. However, most of their efforts were in the skills and particularly in the personal services areas. It seems that the lower social standing of the blacks and the humbleness or humility imbued as slaves allowed them to engage in such business lines as barbering, bootblackering, cooking and catering and other personal services virtually unopposed by competition from whites who viewed such occupations as having servile status.

Harris pointed out, however, that this same lower social standing was a problem for blacks engaging in mercantile trades. White hostility toward black shopkeepers was evident (due to the "inappropriateness" of this form of black business) toward the blacks engaged in these lines, but even more problematic were the barriers of difficulties with capital formation and a lack of accounting and other business skills.

Overall, Harris found the black business community to be inefficient with serious problems relating to size (most are small). He contended that black banks could not operate with the support of only black industry or commerce.
Overall, he characterized black-owned firms as marginal, with only a limited chance of long-term survival.

One author who has addressed several topics, including black leadership, the black role in the economy, the potential of black economy and the problems with black capitalism, is Brimmer [1966, 1968, 1971 and with Terrell 1971] who is perhaps the most quoted of those who contend that federal efforts have caused a net loss to the minority community. Some postulates emerging from his work are paraphrased as follows:

1. The typical black entrepreneur lacks the necessary managerial and technical skill and business experience needed to succeed in business.

2. Black-owned businesses are generally small and inefficient, with slight profit margins.

3. Black-owned businesses tend to be concentrated in industries in which the number of firms in the industry is declining. Few black firms occupy positions in high growth, advanced technology industries. Unless the black business community prepares for the managerial and technical challenge, black business will fail.

4. Various federal and private strategies and problems promoting black ownership of
businesses in the urban ghetto may, in fact, be harmful to the minority community. The mere existence of black businesses has been due, in part, to segregation. White owned firms are now competing for the black consumer market offering a wide range of products. As these firms compete with black-owned firms, their competitive advantage, resulting from greater efficiency and economies of scale, is harmful to the black-owned businesses. The minority community would be better served economically (in the long run) by seeking managerial jobs or technical jobs.

5. Comprehensive financial data are not available on black-owned businesses. This lack retards research necessary to assist them.

Many of Brimmer's views are consistent with Harris [1936], Frazier [1966] and Booms and Ward [1969] who together are categorized as "critics" of black enterprise by Yancey [1974], who ironically has also found current and past federal programs to assist minorities to be unsuccessful and disoriented. He claims the government thinks that one can improve minority business with vast monetary injections alone, which is untrue. The federal program must be balanced with education, training, and technical assistance, in addition to organized, systematic injections of capital.

Case [1972] addressed the issues with an evaluation of the programs
(of both public agencies and private organizations) subsequent to the 1965 Watts riots, aimed at improving the economic conditions of the black inner-city inhabitants of the areas by (1) improving employment opportunities, and (2) assisting black-owned businesses. Case looks at the types of help available from these various agencies, and then by means of interviews with the personnel of the agencies and various community leaders, assesses the impact of such help. Case's findings are as follows:

1. Too many of the agencies examined have programs that do a disservice to minority aspirants by creating the impression that enthusiasm of ethnic solidarity are substitutes for business experience, education or training.

2. As did Brimmer, Case finds that most minority-owned businesses are marginal with poor planning and limited markets.

3. Most of the agencies involved generate much publicity with less than effective results given the money that was spent.

4. Minority business owners often share a strong opinion that the red tape involved with these agencies keeps them from getting the help needed.

5. The small business assistance program has
working capital requirements that cannot be met by most minorities.

6. Generally, financing is difficult for minority-owned businesses, particular for start-up capital.

Case recommends:

1. In central city areas marginal businesses (Mom & Pop operations) should be avoided due to problems associated with such areas in terms of the market.

2. Lenders should appoint loan officers who will become familiar with inner-city and minority businesses.

3. Greater coordination is required to maximize the effects of the capital infusion already in existence for inner-city programs with emphasis on the need for business education and training as a part of the total effort.

4. Those seeking employment should have various other forms of training.

5. Discrimination should be acknowledged and attempts made to remedy it. It should not be ignored.
6. Minority capitalism should be encouraged for regional and national markets, not small-scale inner-city businesses competing within a market not suited to fostering new, profitable or strong minority enterprises.

Those selected critics' views regarding the future of minority business are now contrasted with three "proponents" of black enterprise. Venable [1972], a one-time director of the Minority Business Enterprise, analyzes the condition of existing black businesses, the problems facing the black business owner and presents some solutions to enhance the status of black-owned business. First, he briefly analyzes the economic status of U. S. Blacks showing that median incomes differ significantly between whites and blacks, and participation by blacks in managerial and entrepreneurial activities lag and unemployment of blacks far exceeds that of whites.

Venable then focuses upon the black business owner and asserts:
1. Black-owned businesses are almost universally small.
2. Black-owned businesses are concentrated in retail and service trades.
3. Black-owned businesses are only marginally successful.
4. If free family labor was paid for, most black businesses would probably collapse overnight.
5. Most black-businesses are relegated to black neighborhoods, hence marketing to only a tiny
segment of the population.

6. Unless something is done, black business will fail to keep up with the wage and salary gains black workers have recently made and could eventually fade from view altogether. (Although Venable is a proponent, he shares this view with Brimmer).

Venable states that black business is faced with two alternatives, growth or death, but that it will not be allowed to die, hence growth. That is, if the causes of retardation of growth of black business are understood, this understanding will allow growth to occur. His primary assertion is this: Historically, the American business system has excluded black people, thus the black has been denied not only the capital for entering business, but also the knowledge of the business procedures and techniques which whites have access to during their everyday environment. He states that no reservoir of business knowledge and heritage accumulates in the black community, and so each new black entrepreneur starts out from scratch and develops what little expertise he can through trial and error. Things would be difficult enough for him under the best of circumstances, but when he must compete against a white businessman who has already assimilated the systems and procedures, the results for the black businessman are disastrous. He continues:

..."To go into business without understanding the systems procedures and techniques by which that business is run would be suicidal and in most cases it has been a suicidal effort for black entrepreneurs. The techniques govern every aspect of business--financing, accounting, hiring,
Venable then addresses some methods by which the black businessman can catch up:

1. Learning the systems and procedures by means of trade associations or business organizations:
   a. To utilize the strength in numbers concept and provide education and training for black entrepreneurs.
   b. To allow horizontal and vertical integration on behalf of small business.
   c. Influence the financial community.
   d. Influence the governmental sector.

2. Utilizing franchising to:
   a. Receive education and training.
   b. Receive financing.
   c. Receive assistance on location, advertising, and merchandising.
d. Most importantly, to prescribe and enforce a strict use of business systems and procedures.

3. Purchase an already existing business in order to:
   a. Avoid starting from scratch. The land is already in place.
   b. Benefit from the already existing relationships between the business and its suppliers, bank, insurance company, etc.
   c. Benefit from the already existing market and attempt to keep the clientele instead of having to attract from the beginning.

4. Utilize the universities for not only education, but the various outreach programs often possible through the universities. Independent research regarding the black business, consulting programs and the like, should be utilized.

5. Create a new agency to assist minority business by acting as:
   a. A forum to develop goals and objectives and coordinate efforts of major existing agencies.
b. A clearinghouse.

c. A planner.

d. A credit pool and guarantee project.

Doctors and Huff [73] address the environment for minority enterprise in characterizing along with a historical view. Overall, the members of minority groups have been discouraged from entering business because of:

1. Absence of a historical business experience.

2. General society of business scarcity of business opportunities.

3. Lack of financial resources.

4. Lack of managerial resources.

5. Lack of opportunity to engage in managerial or technical training.


7. Lack of access to business-related information.
8. Lack of successful communication between minority and non-minority population resulting in the view that minority-owned businesses are "high risk" ventures.

The report of the Task Force on Education and Training for Minority Business Enterprise is examined next. The U. S. Department of Commerce Task Force Report [1975], is based upon the identified educational and training needs of existing and future minority business owners. It identifies specific needs for the purpose of helping shape national policy toward providing necessary business management skills for minorities.

The report presents the major findings of the Task Force which are as follows:

1. The high failure rate of minority businesses is attributable, primarily, to poor management and poor business skills of the owners and managers of these enterprises.

2. There exists a chronic shortage of trained minority talent available to meet the need for owners, managers and business technicians in minority business.

3. Management and business skills are critical elements in the survival and successful growth of minority business enterprises.
4. Education and training programs designed to provide needed management and business skills must become an integral part of national strategy to expand minority business ownership.

5. Entrepreneurship as a career opportunity for minority youth is given inadequate attention (Brimmer, of course disagrees).

6. There exists a wide range of existing national, state and local resources which can be enlisted to support or conduct minority business enterprise education and training programs for minority entrepreneurs.

The report repeatedly states that a lack of business skills is not only the primary problem of minority businesses, but of all businesses. Over 90% of all business failures are attributed to poor management which includes: lack of training, inadequate controls, poor accounting methods, insufficient working capital, inability to read and understand financial statements and mobility to relocate or unwillingness to accept expert advice when needed. The increase in knowledge and technology in this century has caused much change in the business environment and education and training are now considered prerequisites to success. With minority disadvantages in these areas, it is suggested that the initial step in fostering minority-owned businesses must be programs designed to:

1. Assist the existing minority entrepreneurs in
furthering his managerial training.

2. Assist the potential minority entrepreneurs in avoiding the shortcomings of most minority business owners (little experience, limited access to sources of supply and markets and insufficient risk and credit capital) in addition to directing training efforts in other managerial and technical areas.

3. Provide for the appropriate types of education for minority youth throughout their educational careers as well as provision for on-the-job types of practical experience gathered via internships and actual work experience.

Overall, the report advocates the following components as essential for a comprehensive minority enterprise education and training effort:

1. Development of basic business education training programs geared specifically for minority entrepreneurs and their staffs.

2. Institution of communication and outreach programs which promote enterprise ownership and related training opportunities.

3. Mobilization of existing resources both public and
private to support or conduct education and training programs.

4. Initiation of valuation, demonstration and research projects to provide needed data, new program designs and useful feedback.

5. Creation of a delivery system to insure that education and training services are provided at the local level.

Dominguez [1976] notes that the problem of finance or capital accumulation may relate to the fact that minorities had the poorest representation in the fields of finance, insurance and real estate. He also contends that minority banks have not been able to attract sufficient deposits or to provide investment funds in the minority communities, which is similar to Brimmer's contention. In addition, the minority community has difficulty securing funds from majority banks, they do not have equal access to credit markets due to misconceptions about them and a lack of information on the part of the minorities. Dominguez also contends that black businesses have difficulty securing credit because of a lack of collateral, insufficient business experience and the inefficiency inherent in operating in small-scale markets. If they have credit access, the costs of credit limits the realistic use. He continues that the lending institutions of the Spanish speaking sector suffer even more than the institutions of other minorities.

Overall, Dominguez views the capital flows into the minority areas, looking at various types of credit institutions, public and private, by minority
groups. Bates [1973] differs with Dominguez in that he suggests that capital markets have remained open to minorities.

It seems that most authors view the minority business community as generally evolved into the sectors of business that were largely ignored by whites. Minority-owned business has been described as undercapitalized, with owners poorly trained in business skills, and small in size. The business organizations are concentrated in the retail and service trades (high risks).

The construction industry ranges from a tiny one-man operation operated from the personal residence of the contractor (who in this example would own little or nothing in the way of equipment) to the gigantic construction enterprise utilizing data processing and cost control equipment, employing large work forces including technical specialists and owning vast amounts of construction-related equipment.

The Small Business Research Library [1979] and Glover [1972, 1978] both identify the construction contracting business as being attractive to minorities due to relative ease of entry and as having low capital needs for entry into the industry. This is somewhat misleading and should be explained. While it is true that one could obtain a license operating as a sole proprietorship and begin operations from one's personal residence, minimizing expenditures--in fact, each entry with little capital outlay--the nature and complexity of the construction industry would tend to suggest limited success, if not failure. Obviously, the size range in types of construction contractors makes generalization difficult. In fact, the larger firms are in a superior position. Nonetheless, the problems associated with minority construction
contractors, large or small, may be solely viewed within three broad subdivisions: finance-related problems, bond-related problems and other problems.

Many of the difficulties associated with minority construction contractors are among those identified as problems for minority businesses in general, however, certain problems peculiar to the industry are identifiable.

**Finance-Related Problems**

The nature of the construction industry results in financial problems in addition to those suffered by most minority businesses. The contractor often must incur a cash outflow, or at least have the lines of supplier and bank credit to purchase supplies and equipment. Also, employees have to be paid before the first payment for a job is received. As a result, the contractor may find that additional jobs cannot be undertaken or are at least restricted because little or no money exists with which to continue operations. In addition, financial needs for equipment and other purposes exist.


Hunter [79] characterizing small and minority businesses in his study states:

1. Minority firms were smaller.
2. Minority firms were less profitable.

3. Minority firms had higher operating costs.

4. Minority firms were more highly levered.

5. Minority firms were smaller in total assets.

6. Minority firms were smaller in employees.

than the sample non-minority firms of the same age and size.

In addition,

1. New minority firms were undercapitalized.

2. This undercapitalization will retard growth.

3. Heavy early debt causes a high cost of expansion capital.

4. Minority firms were less efficient.

5. Minority problems are traceable to too much debt in early years.

Additionally, Hunter suggests that SBIC's and MESBIC's could stand improvement.
Glover identified major problems of these contractors as follows:

I. Finance:
   (a) interim financing
   (b) equipment financing
   (c) other financial problems

II. Labor:
   (a) recruitment
   (b) retention
   (c) training for employees
   (d) relationships with unions

III. Lack of Management Skills:
   (a) estimating and bidding
   (b) bookkeeping and handling finances
   (c) monitoring personnel, reading blueprints and scheduling production
IV. Marketing:
(a) lack of information on jobs
(b) advertising

V. Bonding:
(a) paperwork and bonding problems
(b) discrimination and premium costs

VI. Competition

VII. Credit collection

VIII. Obtaining licenses

IX. Discrimination

Glover's studies showed finance-related problems to be the response received most frequently to the question "What do you consider to be the major problem you face as a contractor?" Additionally, the U. S. Commission on Civil Rights [1975] identified lack of working capital as one of the three most common deficiencies of minority contractors.

Bonding Problems

Surety bonding is closely related to finance. A construction contractor who is having financial difficulties will not be bondable. Interestingly,
neither Glover or Shapiro [undated] cite bonding as an essential problem (even though it is mentioned as a problem) despite the fact that finance and bonding are interrelated.

In 1935, the Miller Act was passed. Among the provisions of the Act was one requiring any contractor engaged in a federal construction project with a value of $2,000 or more to provide a surety bond. Since the surety bond is required prior to bidding on a federal project, the lack of a bond effectively excludes a contractor from securing such work. Further, the economics of the bonding industry are such that many small and minority contractors have difficulty securing such a surety. Thus, the requirement of the Miller Act served as a barrier to increased participation of small and minority-owned businesses in the federal contract area. Testimony before the U. S. House of Representatives Subcommittee on Administrative Law and Governmental Relations, Committee on the Judiciary, Hearings on the Miller Act Amendment, overwhelmingly implicated the $2,000 threshold requiring a bond as being a prime detriment to minority and small construction contractors.

The subcommittee hearings were focused around H. R. 3185, a bill to amend the Miller Act to raise the dollar amount of contracts to which it applies from $2,000 to $50,000. Testimony before the subcommittee included that of Honorable William S. Moorhead, the author of this Bill, who provided rationale for such an amendment.

Representative Moorhead began by explaining the implications of the 1935 act commonly known as the Miller Act, as it relates to federal construction projects. This Act requires a construction surety bond on federal construction
projects with a value of $2,000 or more. Since the surety bond is required prior to bidding on a project, the lack of a bond effectively excludes a contractor from securing such work. Further, the economics of the bonding industry are such that many small and minority contractors have difficulty securing such surety. This requirement serves as a barrier to increased participation of small and minority-owned businesses in the federal contract arena.

The $2,000 minimum set forth in the Miller Act requires that virtually all construction projects be bonded, yet, this threshold was selected in 1935 and has yet to be increased. Representative Moorhead's proposed Miller Act amendment would increase this minimum bonding requirement to $50,000.

A statement in support of the bill (with a $25,000 limitation) from the surety association of America was also read into the record. This statement from the representatives of the bonding industry cited economic infeasibility on the part of the surety industry as a meaningful reason to increase the minimum bonding threshold.

Mr. Clyde Jackson, a representative of the Greater Pittsburg Development Corporation, supplemented the above testimony. He stated that the bonding requirement impacted negatively on small and minority contractors due to:

1. The low (about 1%) commission structure of bonds does not make it worthwhile for the surety agency to provide closer examination or special assistance.
2. Even when small and minority contractors are able to secure a bond, it is often at a premium above the prevailing rate, which increases their cost of doing business.

3. Even when the minority and/or small contractor is able to secure a bond, the necessary paperwork impacts upon their cost.

That is, the bonding requirement places the small and minority contractor at a competitive disadvantage.

In addition, Mr. Jackson suggested a coordinated plan to help the minority contractor including the following components:

1. Knowledge of available jobs, especially in those areas which encourage minority participation

2. Management and technical assistance

3. Sufficient internal cash to finish the job, including working capital loans and lines of credit

4. Bonding

5. Follow-up and ongoing assistance on the job until completion
Additional testimony was heard from various witnesses (private, individual, American Insurance Association, General Services Administration and Small Business Administration) and the overwhelming opinion was as follows:

1. $2,000 is too low.

2. $50,000 is too high.

3. $25,000 is the proper limit.

Not surprisingly, the threshold was changed to $25,000 in 1979. Bonding has been identified by the U. S. Commission on Civil Rights [1975] as a problem and the U. S. Bureau of the Census [1969] stated that bonding was the single most identifiable obstacle for minority contractors and taken together, bonding and finance were the major problems.

During the United States Senate Select Committee on Small Business Hearings on minority business problems [1978] Pat Cloherty of the SBA reported that SBA's Review Board of the 8(a) contract program ascertained bonding to be the major problem of 8(a) contractors. Various other Congressional Committee and Subcommittee reports have likewise identified surety bonding as a substantial barrier.

Ancipink [1978] explains the use of surety bonds and describes the Small Business Administration Surety Bond Guarantee Program and results as of November, 1977. She states then that 90% of all default losses are attributed
to management deficiencies (including financial mismanagement within that 90%.
Alone, financial mismanagement accounts for 60%). She further points out that
only 18% of the SBA business has gone to minority firms. Finally, Ancipink
describes MCAP including its historical role.

Other Problems

Obviously, lack of management skills is the foremost "other problem,"
however, the U. S. Commission on Civil Service [1975] stated:

1. "Minority and female-owned firms encounter problems
of staggering proportions in obtaining information
on federal, state and local government contracting
opportunities in time to submit timely bids, and
in obtaining the working capital necessary for
effective marketing and bidding. Minority and female
entrepreneurs also encounter a great deal of skepti-
cism regarding their ability to perform adequately on
government contracts. Government contracting officers
and program officials expressed reservations con-
cerning the ability of minority-owned firms to per-
form, although no specific cases of inadequate per-
formance by minority firms were brought to the
attention of the commissioner's staff by these con-
tracting officials."

This marketing difficulty is also known to carry over into the private
realm according to Glover. In addition, discrimination must be considered as a
problem area. The report of the Civil Service Commission stated that contract
administrators sometimes had great latitude regarding awards and these same administrators evidenced distrust of the minority contractors. Other problems cited by the United States Civil Rights Commission [1974] stated problems of minority construction contractors to include:

1. Most minority contractors are specialty contractors, not general contractors. The federal government contracts with general contractors, thus, minority firms have limited access to money spent by the federal government.

2. Limited size of most minority firms makes it difficult for minority construction contractors to compete or even prequalify.

3. Difficulties in marketing for government contracts:
   (a) information on jobs
   (b) procurement of contracting policies
   (c) bias of government contracting specialists

Major Federal Government Actions
Major federal government actions to assist the minorities in overcoming their historic disadvantages are numerous. Federal efforts to assist minority businesses have taken many forms. Legislative efforts, Executive Orders, Procurement policies and directives have all been utilized. The description of these programs
is a massive undertaking, a research project in and of itself, and is considered beyond the scope of this project. However, selected programs which have been directed toward or impacted upon minority construction contractors will be briefly discussed.

Although Franklin D. Roosevelt issued an order prohibiting job discrimination back in 1941, the federal role in assisting minorities effectively began in 1964 with:

1. the 1964 Civil Rights Act

2. the SBA's "six-by-six" program

Title VII of the 1964 Civil Rights Act focused upon job discrimination, prohibiting such. This effectively allowed minorities to begin receiving on-the-job training by at last being allowed to enter certain fields. Even so, the effects of the legislation were slowly felt.

SBA's six-by-six program provided for loans of $6,000 (for a period of six years) and also, provided for management assistance to those participating in the program. From this beginning, the SBA has become a substantial factor in assisting and fostering minority entrepreneurs.

Executive Order 11458, as amended, created the Minority Enterprise Program, a policy of assisting minority businesses by providing loans, technical aid, and government contracting opportunities. Three special programs ((1) the SBA 8(a) subcontracting program, (2) the buy Indian Program, and (3) the minority subcontracting program) were established to assist minority-owned
firms in obtaining federal contracts.

Executive Order 11518 directed SBA to especially consider needs and interests of minority-owned small businesses in its programs. As a result, the 8(a) program, whereby the SBA can contract with other government agencies and subcontract the work, became more viable as a tool for assisting minority businesses.

In 1979 the Miller Act was amended to allow government projects of less than $25,000 to be undertaken without the requirement of a bond. This legislation should prove to be beneficial to the minority construction contractors. Without question, the small contractor will be better able to begin competing for government work.

Additional programs of federal assistance include financial programs, educational and training programs and others, through SBA, HUD, OMBE, DOD, and FOCC.

Glover (78) says that two approaches have been used by the federal government. Demand stimulation programs include:

1. government sponsored procurement workshops
   (SBA, OMBE, HUD)

2. set-asides (DOD, SBA)

and programs that enhance the capacity of the MBE's to do larger or more work
are directed toward assisting via bond and loan programs.

Doctors and Huff [1973] view the efforts of the President's Advisory Council for Minority Business Enterprise (PACMBE) via:

1. Documenting PACMBE's experiences.

2. Analyzing PACMBE's impact on minority Enterprise programs.

They begin with a look at the rationale for federal effort and a view of the historical treatment of minorities and the environment for Minority Business Enterprise.

PACMBE's justification for federal efforts is presented as "Rationale of a National Effort." The economic inequities (referred to as . . . "the product of costumes of disregard, discrimination and institutional racism) between majority Americans and minority Americans is discussed with appropriate documentation to show:

1. Minorities control only a small fraction of U. S. productive resources.

2. Minority businesses gross sales are only a small disproportionate fraction of total private sales in the U. S.
3. Most minority businesses are small and as such, control a tiny fraction of capital relative to their control of business.

Doctors and Huff then present an analysis of several major efforts of the federal government aimed at ending discrimination and promoting minority business. Included are discussions of:

1. Executive Order 8802 - aimed at ending discrimination in government and defense industries.

2. Civil Rights Act of 1964 - a major effort to end discrimination. This Act created EEOC.

3. Executive Order 11246 - on several employment orders which contained an affirmative action requirement and coordination and supervision through OFCC.

4. SBA "six-by-six" program - loans of $6,000 for a duration of six years. In addition, the program provided management assistance. This program later became a part of SBA Equal Opportunity loans program.

5. Project one - aimed at making loans to minority business owners.
6. Executive Order 11458 - assistance to minority business owners via loans, technical and government contracting opportunities. This established the Office of Minority Business Enterprise and the President's Advisory Council for Minority Business Enterprise.

7. SBA Programs:
   a. Regular 7(a) business loans
   b. Displaced business loans
   c. Local development company 502 loans
   d. Economic opportunity loans
   e. Federal Procurement Contract Assistance 8(a)
   f. Minority Enterprise Small Business Investment Companies (MESBIC's)
   g. All of the SBA programs listed above are directed toward assisting minority businesses

8. Office of Minority Business Enterprise Programs:
   a. Information center
b. Community Services Division

c. Business Opportunities

d. Government Programs Coordinating Division

9. Economic Development Administration (EDA)

10. Office of Economic Opportunity (OEO)

Yancey [1974] addresses many of the programs enumerated and explained by Doctors and Huff. In addition, he provides information on OMBE's minority franchising program, which aims to place minorities in the main stream of business with a management system in place from the start as well as an established name and additional management assistance, if needed. Yancey summarizes each of the major programs and provides a brief description of the Turnkey Spinoff and Bank Deposit program.

The U. S. Commission on Civil Rights [1975] addresses the SBA 8(a) Loan program. In addition, Federal Procurement Regulations 41 CFR Sec. 1-1.702 and 29 CFR 8, are explained along with Executive Order 11518. The U. S. Housing and Urban Development Manual for Business Opportunities [74] contains an introduction by the Assistant Secretary for Fair Housing and Equal Opportunity. In part, the introduction is as follows:

"For too long the minority group segment of the small business and
professionals operating in the construction contracting and building industry has not fully shared in the benefits available from business participation in HUD programs. The purpose of this manual is to advise practitioners in specific areas of housing development on how to fully and effectively participate in housing development activities."

This manual contains chapters related to various functions in HUD projects. These functions (developer, planner, consultant, real estate broker, appraiser, architect, mortgage banker, attorney, contractor, and housing delivery system by minority professionals.

The germane part of the manual relative to this study is the section on building contractors. The areas of contract documents, building, working capital, subcontractors, bank loans, scheduling, bonding and assistance are discussed. It is interesting that HUD defines a contractor (as opposed to a self-employed craftsman) as one who should have accomplished the following:

1. Developed a pro-forma balance sheet and profit and loss statement.
2. Established an office.
3. Organized and filed with the state, county or local jurisdiction, the type of business.
4. Obtained licenses.
5. Filed above and credit information with Dun and Bradstreet.

6. Developed a banking relationship.

7. Selected an accounting firm.

8. Joined an association of small contractors.

9. Selected a lawyer.

10. Developed a system to pay himself while marketing for a profitable contract which is within his capacity to perform.

Assistance for the contractor is available and the above manual suggests MCAP (Minority Contractors Assistance Project), SBA and programs of the Office of Minority Business Enterprise. The U. S. General Accounting Office [1980] addresses contract principles and, within, discusses the topic of equal opportunity, government procurement policies, size standards of small businesses (not dominant in field of operations) and the contracting and set-aside programs.

The U. S. Commission on Civil Rights Act [1980] was established by a Congressional Act in 1957 and was charged with five major responsibilities, among which the appraisal of federal laws and policies with respect to discrimination and the submission of reports, findings and recommendations to the President and Congress are included. The above document was released as a
proposed statement.

The Commission begin by discussing affirmative action as a method to make equal opportunity a reality for groups that have been historically disadvantaged or excluded, and strongly support such affirmative action efforts. They further suggest a problem-solving approach to unify and direct current and future affirmative action programs. That is, efforts should be made to fully understand the problem of discrimination and prescribe an effective remedy to be administered via affirmative action efforts. The Commission next attempts to further explain discrimination, not only from a statistical imbalance approach, which is a results view, but from a conservative view, attempting to explain how the process of discrimination operates. They then state that only antidiscrimination (affirmative actions) can remedy the results of discrimination.

Discrimination is viewed as a historical process that is self perpetuating. The process involves actions and attitudes which bestows privileges, and advantages on white males and basically disadvantages on minorities and women. Past discrimination continues to have present-day results. Overall, the process is complex and deeply rooted in American life, society and its institutions. The Commission identifies three types of discrimination:

1. Individual discrimination—characterizes by individual attitudes and behavior.
   
   a. Intentional.
   
   b. Unintentional—as a result of some adherence to custom or precedent.
2. Organizational discrimination--may be thought of as the institutionalization of discrimination through the enforcement of rules, policies and practices of organization.

3. Structural discrimination--the self-perpetuating process of discrimination within the various areas of education, housing, employment, business, and the like which foster a cycle of no education, no job, no housing. An example given is as follows:

"Because of past discrimination against minorities and women, female and minority-headed businesses are often small and relatively new. Further, disadvantaged by contemporary credit and lending practices, they are more likely than white male-owned businesses to remain small and be less able to employ full-time specialists in applying for government contracts. Because they cannot monitor the availability of government contracts, they do not receive such contracts. Because they cannot demonstrate success with government contracts, contracting officers tend to favor other firms that have more experience with government contracts."

The Commission next presents Civil Rights Law and Affirmative Action.
They begin by showing how civil rights law acknowledges discrimination. The statistics of discrimination, those demonstrations of disparity between groups, are often used to demonstrate the existence of discrimination. Although civil rights laws take many forms, the standards to determine whether or not discrimination exists take two forms:

1. Intent standards—the act discriminating violates the law only if intentional, purposeful or deliberate.

2. Effects standards—the disparate statistics may be used to show discrimination in certain instances.

The Commission proceeds with a presentation of civil rights law and the remedy. This begins with a statement that as some civil rights agencies and courts view unequal results as an indication of discrimination, a reduction of unequal results may be viewed as an indication of remedy. Thus, numerically-based remedies are often directed.

The Executive Order 1246 (as amended) is offered as an example of a program utilizing numerically-based remedies. This contract compliance program requires businesses that contract with the federal government to avoid discriminating and to take affirmative action. Use of goals and timetables was the method utilized to determine progress or lack, thereof, in the hiring of minorities and women. Contractors must analyze their patterns of employment of minorities, compare their proportions to the proportions in the available labor pool, and develop goals and timetables for overcoming underutilization of minorities and women. However, the commission states that the self analyses
to identifying obstacles and plans for overcoming them are flexible and require only "good faith efforts", not strictly numerical compliance.
Chapter 3
Profile of Firms Studied

This study examines minority contractors in the state of Georgia in the Spring of 1981. It is static in nature in that it only examines the contractors at this one time period. It does not look at their development over time. Because information was obtained through the use of a telephone survey and contractor names were identified from association membership lists, the group of firms surveyed probably represents firms that are larger than the typical minority contractor in the state of Georgia. This emphasis on larger contractors can have some benefits in that it allows a comparison between the needs and problems of this group of contractors versus the larger population surveyed in the Glover study. Also, this study involves firms from cities of various sizes. Atlanta firms certainly dominated the study but contractors from Albany, Columbus, Augusta, and other Georgia communities are included. The study by Glover involved only large cities: Houston, Atlanta, Chicago, and Oakland. The present study was completed during a very weak business climate in the construction area while the Glover study was done during what might be called a golden period of construction. This statement is especially true for the state of Georgia which had a construction boom during the early 1970's.

In profiling the size of firms studied, it was determined that they had completed jobs with a maximum amount of $1,000 to $18,000,000. The median maximum award for the 30 firms was $60,000. The maximum bank loan that they had obtained was $1,000,000 and the minimum maximum was zero. Five contractors indicated they had never obtained a business bank loan. The median maximum bank
loan was $13,000 to $15,000. Outside the one loan for a $1,000,000, the second largest loan was $500,000 and the third largest was $50,000. From these bank loan data, it can be seen that three or four of contractors were capable of obtaining sizeable bank loans but for the most part, loans over $25,000 were unusual.

When asked what were the firms major problems, a wide array of responses were given. Frequently, it was stated that competition, paper work, red tape and obtaining information on bids were problems. In three cases, being a minority or prejudice was mentioned. However, the overriding major concerns of those surveyed were working capital-cash flow and bonding. Eleven persons mentioned working capital and eleven contractors were concerned with bonding, and seven of those mentioning bonding were also the contractors performing on the larger contracts. Four of the smaller contractors mentioned bonding. Larger contractors outnumbered small contractors about two-to-one on this topic. On the subject of cash flow, the smaller contractors were more concerned. Of the eleven responses to that topic, six of them were from contractors performing the smaller jobs. This pattern would seem to be logical in that the larger firms should have greater financial capacity and greater appeal to lending institutions. The smaller concerns would tend to be more hand-to-mouth operations, and have greater difficulty meeting cash flow needs. Likewise in the bonding area, larger firms would be more involved in contracts that required bonds. As they grew and felt capable of performing bigger contracts, their bonding requirements would increase. Thus, they would constantly be facing the need for bonding or increasing their bond limit. The lack of bonding capacity would keep them from growing.
<table>
<thead>
<tr>
<th>CASE NUMBER</th>
<th>LARGEST JOB</th>
<th>MAJOR PROBLEMS</th>
<th>LARGEST LOAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$900,000</td>
<td>Government RED TAPE, Other-Legal Problems with Contracts</td>
<td>$50,000</td>
</tr>
<tr>
<td>2</td>
<td>700,000</td>
<td>Racial Prejudice, Other-the Business is Unethical</td>
<td>35,000</td>
</tr>
<tr>
<td>3</td>
<td>51,000</td>
<td>Finding Jobs, Estimation Problems</td>
<td>45,000</td>
</tr>
<tr>
<td>4</td>
<td>85,000</td>
<td>Bonding, Cash Flow</td>
<td>15,000</td>
</tr>
<tr>
<td>5</td>
<td>180,000</td>
<td>Bonding</td>
<td>20,000</td>
</tr>
<tr>
<td>6</td>
<td>698,000</td>
<td>Bonding</td>
<td>50,000</td>
</tr>
<tr>
<td>7</td>
<td>160,000</td>
<td>Bonding, Finding Qualified Employees, Credit</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>15,000</td>
<td>Liability Insurance, Bonding, Cash Flow</td>
<td>1,000</td>
</tr>
<tr>
<td>9</td>
<td>No Response</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>10</td>
<td>21,000</td>
<td>Bonding, Credit, Finding Jobs</td>
<td>4,500</td>
</tr>
<tr>
<td>11</td>
<td>26,000</td>
<td>Finding Jobs, Credit</td>
<td>500</td>
</tr>
<tr>
<td>12</td>
<td>13,000</td>
<td>Credit, Bonding, Competitor</td>
<td>20,000</td>
</tr>
<tr>
<td>13</td>
<td>60,000</td>
<td>Bonding, Finding Jobs</td>
<td>13,000</td>
</tr>
<tr>
<td>14</td>
<td>8,000</td>
<td>Credit, Finding Qualified Employees, Inflation</td>
<td>15,000</td>
</tr>
<tr>
<td>15</td>
<td>71,000</td>
<td>Competition, Credit</td>
<td>4,000</td>
</tr>
</tbody>
</table>
| 16 | 4,000 | * Cash Flow 
   Competition 
   Bonding | 2,000 |
| 18 | 650,000 | Bonding 
   Government RED TAPE 
   Prejudice | 50,000 |
| 19 | 3,000 | Finding Jobs 
   Cash Flow 
   Other-Having to Work as a Subcontractor | 3,000 |
| 20 | 48,000 | Prejudice | 4,000 |
| 21 | 1,500,000 | Prejudice 
   Finding Jobs 
   General Economy | 0 |
| 22 | 75,000 | Government RED TAPE | 2,000 |
| 23 | 300,000 | Credit 
   Prejudice | 16,000 |
| 24 | 13,500 | Government RED TAPE 
   Competition | 15,000 |
| 25 | 1,200,000 | Cash Flow | 25,000 |
| 26 | 4,000 | Finding Jobs | 15,000 |
| 27 | 11,000 | None | 15,000 |
| 28 | 1,000 | Finding Jobs | 0 |
| 29 | 18,000,000 | Finding Qualified Employees 
   Other-Getting Private Jobs 
   Bonding | 1,000,000 |
| 30 | 6,000 | Credit 
   Finding Jobs | 8,000 |
### TABLE 3-2  
**TYPE OF BUSINESS ORGANIZATION**

<table>
<thead>
<tr>
<th>ORGANIZATION</th>
<th>PERCENTAGE OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOLE PROPRIETOR</td>
<td>46.6%</td>
</tr>
<tr>
<td>PARTNERSHIP</td>
<td>6.9%</td>
</tr>
<tr>
<td>CORPORATION</td>
<td>46.6%</td>
</tr>
</tbody>
</table>

### TABLE 3-3  
**NUMBER OF YEARS FIRM HAS BEEN IN BUSINESS**

<table>
<thead>
<tr>
<th>NUMBER OF YEARS IN BUSINESS</th>
<th>PERCENTAGE OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2- 4</td>
<td>16.7%</td>
</tr>
<tr>
<td>5- 8</td>
<td>30.1%</td>
</tr>
<tr>
<td>9-12</td>
<td>30.0%</td>
</tr>
<tr>
<td>14-30</td>
<td>19.9%</td>
</tr>
<tr>
<td>OVER 30</td>
<td>3.3%</td>
</tr>
<tr>
<td>EMPLOYEES</td>
<td>PRESENT NUMBER OF EMPLOYEES</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>0-3</td>
<td>30.0%</td>
</tr>
<tr>
<td>4-8</td>
<td>40.3%</td>
</tr>
<tr>
<td>9-19</td>
<td>13.3%</td>
</tr>
<tr>
<td>20-40</td>
<td>13.2%</td>
</tr>
<tr>
<td>OVER 40</td>
<td>3.3%</td>
</tr>
</tbody>
</table>
Statistical Profile of Firms Studied

Of the thirty organizations studied, 46.6% were sole proprietorships, 6.9% were partnerships and 46.6% were corporations. Thus, about half of the firms were corporations. This statistic shows some maturity in organizational development when compared to Glover's study ten years ago when only 24 percent of the firms were corporations. This result is as would be expected, as a group of economic entities develop. Corporations are more permanent, usually involve more capital, and protect investors' personal assets.

In terms of number of years in the construction business, a wide range of responses were received. One firm had been in business over 30 years while 16.7% had been in business four years or less. The majority (60.1%) of firms had been operating between five to twelve years and 19.9% had been in business between 14 to 30 years. Thus, of the entire sample, 83.3% had operated for at least five years. Based on Glover's study and the attention given minority contractors the last ten years, one would have hoped to have seen firms with greater experience. The average experience factor has changed little from the earlier study and, if anything, it has declined.

With respect to the number of full time employees, the organizations studied were definitely small businesses. Over 70 percent of the firms had eight or less employees which is about what Glover found except in the present study a higher percentage of firms had four to eight employees. In Glover's study, over 50 percent of the firms had three or less employees while the present study only had 30 percent of the firms in that category.
When one looks at the maximum number of employees in the last five years, the expected change is seen. However, it is not as dramatic as one might expect. Even when looking at maximums, 16.7 percent of the firms show three or less employees. However, the four-to-eight category is depopulated and the twenty-to-forty group increases from 13.2 percent to 30.1 percent. It would seem that this group tends to have more variation in number of employees than the others. This variation could result from the fact they are not strong enough to maintain steady employment for their employees and must hire workers almost on a job-by-job basis. Given the data collected in the survey, it would seem unlikely to find many minority contractors employing more than 19 full time employees in the decade. Growth in the number of full time employees will, at best, be a steady process and not very dramatic.

Having examined type of ownership, number of employees and years of operation, gross dollar volume in 1980 and projected gross dollar volume in 1981 will be reviewed. Again, the same patterns are seen as forty percent of the firms had gross dollar volume of less than $50,000 and ten percent had a volume of less than $10,000. One would suspect that these organizations are not very stable and would shortly be leaving the market place unless their owners have outside sources of income. On the bright side is the fact that over fifty percent of the firms had gross revenues over $100,000. Even adjusting for inflation, the median gross revenue figure would be greater than that found by Glover, and where Glover found six percent grossing over $1,000,000 (adjusting Glover's figures for inflation), the present survey found 13.4 percent. This observation is encouraging. It would seem that
minority firms are grossing more on the average and that larger ones are even doing better. Progress is being made but perhaps not as fast as some would desire.

Although the gross revenue picture for 1980 showed improvement, a mixed picture is seen for 1981. On one hand, more firms expect to gross under $25,000 than in 1980 and on the other hand, there is a dramatic increase in the over a million class (13.4% to 23.3%). These data may suggest a situation where the rich are getting richer and the poor are getting poorer. In economic situations like 1981 when construction is depressed, interest rates and inflation are high, one might expect such results. If a firm was not strong going into 1981, it could easily foresee not doing very well for the year. This situation is especially true for a small contractor.

In order to determine the impact of federal expenditures on the firms studies, the question was asked to give the percentage of gross revenue that was due to federal government jobs. As in several other cases, a bimodal response is found. Of those surveyed, 40 percent did not have any federal contracts. However, 26 percent of the firms had over 50 percent of their business with the federal government. One would suspect that the larger contractors are those working on federal government contracts and those same larger contractors were the ones expecting the greatest increase in business in 1981. With the present administration attitude on government spending and the modification of the tax laws under review, it is doubtful that these large contractors would be so optimistic for 1982 and beyond. However, if the supply side economist are correct, then inflation will be reduced and private sector
will expand. Regardless of the economic results of the administration's plan, on a relative basis the availability of federal contracts will probably be less. Minority contractors should be aware of this development and be prepared to move more to the private sector and to closely watched costs during the transition.

The last piece of data gathered dealing with a profile of the studied contractors is the type of construction work that they perform. Analysis of the data shows that a wide variety of activities were performed by these firms. No clear pattern of real concentration exists. Overall, it seems that most frequent specialization were electricians (5), general (5), concrete (4), and flooring (4). Carpentry and excavating, with three each, were the next two categories most frequently mentioned. This wide variety of specialities is good from this report's viewpoint. The data are not skewed to one area of the construction business. It reflects much of the construction business, not just hauling and excavating or some other speciality.
### TABLE 3-5
GROSS DOLLAR VOLUME

<table>
<thead>
<tr>
<th>Category</th>
<th>1980</th>
<th>Projected 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>0- 9,999</td>
<td>10.0%</td>
<td>16.7%</td>
</tr>
<tr>
<td>10,000- 24,999</td>
<td>20.0%</td>
<td>16.7%</td>
</tr>
<tr>
<td>25,000- 49,999</td>
<td>10.0%</td>
<td>6.7%</td>
</tr>
<tr>
<td>50,000- 99,999</td>
<td>3.3%</td>
<td>10.0%</td>
</tr>
<tr>
<td>100,000-249,999</td>
<td>10.0%</td>
<td>13.3%</td>
</tr>
<tr>
<td>500,000–999,999</td>
<td>10.0%</td>
<td>6.7%</td>
</tr>
<tr>
<td>1,000,000 AND OVER</td>
<td>13.4%</td>
<td>23.3%</td>
</tr>
</tbody>
</table>

### TABLE 3-6
PERCENTAGE OF GROSS REVENUE FROM FEDERAL CONTRACTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>25% OR LESS</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>50% OR LESS</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>OVER 50%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Construction Specialty</td>
<td>Count</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>Carpentry</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Concrete</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Demolition</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Electrical</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Excavating</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Flooring</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Foundation</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Hauling</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Heating</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Landscape</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Lathing Plaster</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Masonry</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Painting</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Paving</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Plumbing</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Refrigeration</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Residential Remodeling</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Roofing</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sheet Metal</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Structural Steel</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Terrazzo Tile</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Waterproof</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Subdivision</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 4

Results of Study

In this section of the study, the respondents' opinion and problems are investigated. In the first portion of the chapter, the answers to survey questions are examined and in the second part, cross tabulations are made between respondents' answers. Through the cross tabulation, it is hoped a clearer picture of problems and perceptions can be obtained.

Need for Assistance

As discussed in Chapter 1, there are numerous government programs to help small business and minority contractors. In this situation, the researchers are attempting to determine where the contractors feel they need help the most.

From Table 4-1, it can be seen that the contractors are consistent with what they feel their major problems are. In both situations, assistance and problems, bonding heads the list. They are having trouble obtaining bonds or obtaining larger bonds and they desire assistance in obtaining these bonds. They desire assistance in obtaining loans for operating expenses and equipment and finding new jobs. These three items are high on the list of problems. From these responses on problems and assistance needed, a clear pattern develops. They seem more concerned about outside factors than internal ones. When the questions on internal assistance like management assistant, training personnel, and technical assistance were answered, lower affirmative response rates were given. They are not as concerned about internal factors as external.
<table>
<thead>
<tr>
<th>TYPE OF ASSISTANCE</th>
<th>YES</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOVERNMENT ASSISTANCE ON BONDING</td>
<td>28</td>
</tr>
<tr>
<td>LOANS FOR EQUIPMENT PURCHASE</td>
<td>25</td>
</tr>
<tr>
<td>LOANS FOR OPERATING EXPENSES</td>
<td>22</td>
</tr>
<tr>
<td>INCREASE VOLUME OF CONTRACTS</td>
<td>27</td>
</tr>
<tr>
<td>TECHNICAL ASSISTANCE</td>
<td>22</td>
</tr>
<tr>
<td>TRAIN PERSONNEL</td>
<td>22</td>
</tr>
<tr>
<td>MANAGEMENT ASSISTANCE</td>
<td>23</td>
</tr>
<tr>
<td>LAWS AGAINST DISCRIMINATION</td>
<td>26</td>
</tr>
</tbody>
</table>
Perhaps they feel they have some opportunity to control or correct internal ones. However, when it comes to bonding or acquiring working capital, they must obtain outside help and they feel the federal government should provide assistance.

This feeling is not without precedent in our society as the entire farm program is built along the same line. The government provides markets, loans, and technical assistance for farmers on a massive scale.

While the SBA has developed loan and bond guaranty programs, these contractors either are not using it or not using it properly. In Chapter 1, it was shown that minorities did not use the bond program very heavily and problems existed at the national level in the bond program. The responses obtained in this study do nothing to dispute the previously described situation.

Administrative Data

If a business is going to operate efficiently, it must be able to monitor and control its operations. In order to determine how well firms were able to handle this task, several questions were asked concerning this record keeping, types of persons employed and tax return preparation. The responses to these questions are shown in Table 4-2.

In terms of type of persons employed, eleven firms did not even employ a secretary. This information would lead one to conclude that these firms had not obtained enough critical mass to be a stable unit and record keeping was most likely completed by the owner and/or the owner's spouse.
### TABLE 4-2

**FIRM CONTROL CAPACITY**

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>PERSONS EMPLOYED</th>
<th>RECORD KEEPER</th>
<th>PREPARATION OF TAX RETURNS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>OWNER</td>
<td>6</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>SPOUSE</td>
<td>0</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>BOOKKEEPER</td>
<td>14</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>OFFICE MANAGER</td>
<td>12</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>ACCOUNTANT</td>
<td>16</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>TAX CONSULTANT</td>
<td>13</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>MANAGEMENT CONSULTANT</td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ATTORNEY</td>
<td>15</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>SECRETARY</td>
<td>19</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As regards the other administrative functions, the responses are fairly constant. About 50 percent of the firms employed a bookkeeper, an office manager, an accountant, and they used or employed a tax consultant and an attorney. These firms should have some capability in monitoring costs and making accurate estimates. Of course, just employing persons in these occupations does not ensure these tasks can be accomplished, but it is a strong step in that direction.

As might be suspected from the employment data, the record keeping is frequently performed by the owner or the owner's spouse. In 13 cases, these people were responsible for this task. As would be expected, the firm's accountant was responsible for record keeping most often. In terms of tax preparation, the accountant is overwhelmingly the most frequent person to do the job. Only one firm used the owner. Firms may choose to maintain their own records, but it seems they turn to technically trained persons to complete their tax returns.

When one recognizes that only half the firms have an administrative staff, it becomes clearer why some firms are not too concerned about technical support from the government. They are probably too small to be concerned about technical expertise that would be provided by the government. They need jobs and working capital. Since they are so small, they do not have to worry about span of control and sophisticated construction techniques.

The responses given in this section highlight a policy question that constantly faces the federal government. What audiences should they address? Small firms need one type of aid and larger firms another. Resources are limited. Should the government wait until a firm has survived a few years
and then provide aid or should the government help from the beginning. Most likely more success would result if the government only helped more mature firms, but that would probably lead to criticism as being discrimination toward minorities since they make up a larger number of smaller firms and would defeat the purpose of building stronger minority economic institutions. More on this policy question will be discussed in the final section of this study.

**Financing**

The sources of capital for the minority business persons included in this study are the conventional sources. Most of them indicated personal savings was the source of original investment with secured bank loans the second most frequently mentioned sources. This response is as should be expected, the original capital in most organizations is risk capital. The uncertainty is high, but if successful, the rewards can be great. Usually lenders are not willing to provide capital to such high risk situations since their rate of return is often limited to some stated contract amount. If the firm earns 10 percent or 70 percent a year, the lender only received 25 percent as stated in loan agreement. Of course, the lender is also supposed to receive that 25 percent when the contractor only makes five percent.

With respect to financing, once the business is going, different patterns are seen. In this situation, banks are seen as active sources of short-term funds. Advances are made on contracts and for payment of contractor payrolls. Bank loans are requested and received. Of 20 firms seeking bank loans, 17 firms have received them. However, these data do not reflect how often the loan request is received. The other major source of credit
<table>
<thead>
<tr>
<th>ORIGINAL CAPITAL</th>
<th>NUMBER OF RESPONSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNSECURED LOAN</td>
<td>3</td>
</tr>
<tr>
<td>BANK SECURED LOAN ON PROPERTY</td>
<td>5</td>
</tr>
<tr>
<td>FROM SAVINGS</td>
<td>24</td>
</tr>
<tr>
<td>PARTNER</td>
<td>1</td>
</tr>
<tr>
<td>SBA</td>
<td>0</td>
</tr>
</tbody>
</table>
### TABLE 4-4

FINANCING

<table>
<thead>
<tr>
<th>YES</th>
<th>YES</th>
</tr>
</thead>
<tbody>
<tr>
<td>BANK WILL ADVANCE MONEY FOR CONTRACTS</td>
<td>15</td>
</tr>
<tr>
<td>BANK WILL ADVANCE MONEY FOR PAYROLL</td>
<td>14</td>
</tr>
<tr>
<td>HAVE YOU TRIED SBA LOAN</td>
<td>6</td>
</tr>
<tr>
<td>DID YOU RECEIVE LOAN FROM SBA</td>
<td>1</td>
</tr>
<tr>
<td>HAVE YOU TRIED BANK LOAN</td>
<td>20</td>
</tr>
<tr>
<td>DID YOU RECEIVE LOAN FROM BANK</td>
<td>17</td>
</tr>
<tr>
<td>HAVE YOU TRIED BUILDING LOAN ASSOCIATION LOAN</td>
<td>2</td>
</tr>
<tr>
<td>DID YOU RECEIVE LOAN FROM MATERIAL DEALER</td>
<td>2</td>
</tr>
<tr>
<td>MATERIAL DEALER LOAN</td>
<td>8</td>
</tr>
<tr>
<td>DID YOU RECEIVE LOAN FROM MATERIAL DEALER</td>
<td>8</td>
</tr>
</tbody>
</table>
indicated is from materials dealers. These business persons seems to be a significant contributor of short-term funds.

In the survey conducted, little SBA involvement is found. The SBA has not been a source of original capital for these firms nor has it been a major source of continuing financing. Six firms had applied to the SBA for loans and only one received such a loan. Based upon the responses on the bond guaranty question and the question on SBA loans, it seems the SBA is having little impact on the firms studied. A more wide base study covering areas other than Georgia could find different results but findings of this study do not indicate much involvement.

The Market Place

In this section of this study, the areas of competition, involvement--government contracts, job identification and joint ventures are examined. Through the analysis of these topics a better understanding of the minority contractors market can be obtained.

Competition

On this topic, the contractors were questioned on why they lost jobs. The overriding reason was that competitors underbid them. Over 50 percent of the respondents said that this situation existed. One would expect such responses in a competitive market. Other subjects mentioned were lack of bonding, inadequate labor force, lack of working capital, and discrimination. These items have been seen before under the category of major problems and it is logical to see them again as reasons why firms did not receive a job. The consistency of responses in this area is encouraging. The contractors know
### TABLE 4-5

**COMPETITION**

<table>
<thead>
<tr>
<th>WHY FIRM LOST JOBS</th>
<th>NUMBER OF RESPONSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPETITION</td>
<td>20</td>
</tr>
<tr>
<td>BONDING</td>
<td>5</td>
</tr>
<tr>
<td>LACK OF LABOR</td>
<td>4</td>
</tr>
<tr>
<td>DISCRIMINATION</td>
<td>3</td>
</tr>
<tr>
<td>LACK OF WORKING CAPITAL</td>
<td>4</td>
</tr>
</tbody>
</table>

### TABLE 4-6

**GOVERNMENT JOBS**

<table>
<thead>
<tr>
<th>NUMBER OF RESPONSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCAL GOVERNMENT</td>
</tr>
<tr>
<td>STATE GOVERNMENT</td>
</tr>
<tr>
<td>FEDERAL GOVERNMENT</td>
</tr>
</tbody>
</table>
That their major problems are causing them to lose jobs and they desire government assistance to eliminate and reduce the major problem.

Government Jobs

About half of the contractors had performed jobs for the local and federal government. One would expect a high participation in local government jobs since the contractors are close to the situation and the larger firms should have a positive relationship with local government. However, the low response rate with state government is discouraging as one would expect better relations with the state government. Only about a third of the contractors have had a state government contract. One would hope that in the future the state government would be more responsive to the services of minority contractors and to involve them more actively in the state procurement process.

Job Identification

Potential jobs are identified from a variety of sources. As might be expected, personal contacts were a major source of construction jobs, as were the Dodge reports. As shown in Table 4-7, information services, trade journals and HUD were the next most useful sources of information. While the newspaper, the General Services Department and the Department of Defense, were the least beneficial. Three federal government agencies are identified in their analysis while state agencies seem to be of less importance. Again, it would seem that minority contractors and the state government should work at opening the lines of communication between the two groups. In a state where minorities comprise such a significant portion of the population, active communication between minority contractors and the state government should be taking place.
<table>
<thead>
<tr>
<th>Source</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newspaper</td>
<td>5</td>
</tr>
<tr>
<td>Personal Contact</td>
<td>10</td>
</tr>
<tr>
<td>Trade Journal</td>
<td>7</td>
</tr>
<tr>
<td>Information Service</td>
<td>7</td>
</tr>
<tr>
<td>Department of Defense</td>
<td>5</td>
</tr>
<tr>
<td>Dodge Reports</td>
<td>11</td>
</tr>
<tr>
<td>General Service Administration</td>
<td>4</td>
</tr>
<tr>
<td>HUD</td>
<td>7</td>
</tr>
</tbody>
</table>
Attitudes Toward Joint Ventures

Many of the contractors contacted were quite favorable to the concept of the joint ventures. As is reflected in Table 4-8, 80 percent of them were willing to participate in a joint venture. They certainly would not enter into one blindly but under the correct circumstances the concept is attractive. At least half of them believe that the joint venture would provide them with more working capital, increase the probability of obtaining more jobs as well as to give them the ability to handle more jobs. While still favorable but to a lesser extent, they state that their technology, equipment, and expertise would be improved. This feeling is consistent with their previous statements on internal versus external factors. The contractors surveyed seem more concerned with outside factors (money, obtaining jobs) than internal factors (equipment, technology). If one thinks about this pattern of responses, a logical explanation can be determined. Most self-made business people are self confident and too proud to state that they are a problem or they lack the expertise to the job in a survey like the one administered in this project. Besides, they cannot very well remove themselves without destroying the firm, as well as their own income stream.

Although the contractors had many positive feelings on joint ventures, the bottom line is that they are not using them. Only one contractor indicated that the joint venture approach had been used. Since the Atlanta Airport and MARTA have used the joint venture approach, one could probably safely assume that this contractor had participated in one of those projects. If that is the case, that contractor would most likely be large enough to take care of the firm in negotiating contracts for a joint venture. It would seem to these researchers that a minority contractor would want to be very
### TABLE 4-8

ATTITUDES TOWARD JOING VENTURES

<table>
<thead>
<tr>
<th>JOINT VENTURE</th>
<th>YES</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOULD YOU DO IT</td>
<td>24</td>
</tr>
<tr>
<td>DOES IT PROVIDE BETTER TECHNOLOGY</td>
<td>16</td>
</tr>
<tr>
<td>WILL IT HELP WORKING CAPITAL</td>
<td>20</td>
</tr>
<tr>
<td>DOES IT INCREASE CHANCE OF GETTING JOB</td>
<td>20</td>
</tr>
<tr>
<td>DOES IT ALLOW YOU TO HANDLE MORE JOBS</td>
<td>20</td>
</tr>
<tr>
<td>DOES IT ADD EXPERTISE</td>
<td>17</td>
</tr>
<tr>
<td>DOES IT ADD ADDITIONAL EQUIPMENT</td>
<td>16</td>
</tr>
<tr>
<td>DOES IT STRENGTHEN BID POSITION</td>
<td>20</td>
</tr>
<tr>
<td>HAVE YOU BEEN IN A JOINT VENTURE</td>
<td>1</td>
</tr>
</tbody>
</table>
careful in entering a joint venture. When one sleeps in the same bed with an elephant, one must be very careful even if the elephant is friendly.

Marketing

Through the use of the questions on advertising, it is hoped that information on how minority contractors reach their markets, can be obtained. Since getting more jobs had been identified as a problem and they desire to obtain more jobs, the topic is important to these contractors.

From Table 4-9, one can see that these contractors use a variety of methods to reach their publics. About half of them use the telephone directory and business cards. Little mass media is used. This approach is not unexpected since mass media is more appropriate for consumer markets. The profile on the type of jobs these contractors perform presented in Chapter 3, showed that they were not heavily involved in residential work. Thus, advertising to that market is not needed. Also, the high cost of mass media advertising would prohibit its use.

The fact that telephone solicitation was used by some contractors, shows that they are aggressively seeking jobs and reinforces the earlier observations about obtaining jobs through personal contacts. The use of job site billboards would seem to be an effective way to advertise, but you have to have jobs before you can take this approach. This marketing tool is only effective if you are performing some reasonable number of jobs and most likely is used by the more mature firms.
<table>
<thead>
<tr>
<th>ADVERTISING MEDIA UTILIZED</th>
<th>NUMBER OF FIRMS USING THIS APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELEPHONE DIRECTORY</td>
<td>15</td>
</tr>
<tr>
<td>LOCAL NEWSPAPER</td>
<td>4</td>
</tr>
<tr>
<td>TRADE JOURNAL</td>
<td>3</td>
</tr>
<tr>
<td>BUSINESS CARD</td>
<td>14</td>
</tr>
<tr>
<td>RADIO</td>
<td>1</td>
</tr>
<tr>
<td>TELEVISION</td>
<td>0</td>
</tr>
<tr>
<td>TRADE SHOW</td>
<td>1</td>
</tr>
<tr>
<td>CHURCH BULLETIN</td>
<td>4</td>
</tr>
<tr>
<td>COMMUNITY PUBLICATION</td>
<td>2</td>
</tr>
<tr>
<td>JOB SITE BILLBOARDS</td>
<td>5</td>
</tr>
<tr>
<td>TELEPHONE SOLICITATION</td>
<td>4</td>
</tr>
<tr>
<td>DOOR TO DOOR</td>
<td>1</td>
</tr>
<tr>
<td>ADVERTISING FLYERS</td>
<td>0</td>
</tr>
<tr>
<td>BULK MAIL</td>
<td>1</td>
</tr>
<tr>
<td>NO ADVERTISING</td>
<td>5</td>
</tr>
</tbody>
</table>
Overall, one can say that on the whole these firms do not seem to be doing much advertising. They have probably not reached a large enough size to feel they can receive their money's worth from advertising.

**Bonding**

Throughout this study, bonding has repeatedly been mentioned as a problem or a concern. Given the size of some of these firms, one might question whether they should really be concerned about bonding. However, 29 out of 30 wanted bonding assistance from the federal government.

When asked how many jobs that they bid required bonding, seven firms replied none. However, half of the firms stated that they had bid on at least ten jobs that required bonds and ten firms had been involved with bonds on over 33 bids.

In an attempt to see how the elimination of bonding would affect the contractors, the question was asked: "How many more jobs would you have bid if no bond was required?" Their responses are given in Table 4-11. As can be seen, there were a variety of answers. As usual, there was sizeable group (11) not affected by bonding requirements. They are probably too small to be concerned or to need it. Other than that one concentration, all the other contractors said that they would have bid more jobs and five said they would have bid more than 30 additional jobs.

Having identified that bonding affects their bid process, the next question sought was to determine how often the inability to receive a bond
TABLE 4-10
JOBS BID THAT REQUIRED BONDING

<table>
<thead>
<tr>
<th>NUMBER OF JOBS</th>
<th>NUMBER OF RESPONSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>33</td>
<td>1</td>
</tr>
<tr>
<td>35</td>
<td>1</td>
</tr>
<tr>
<td>97</td>
<td>2</td>
</tr>
<tr>
<td>98</td>
<td>4</td>
</tr>
<tr>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>150</td>
<td>1</td>
</tr>
</tbody>
</table>
### TABLE 4-11

**How Many More Jobs Would Have Been Bid If No Bond Were Required**

<table>
<thead>
<tr>
<th>Number of Jobs</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>70</td>
<td>1</td>
</tr>
<tr>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>300</td>
<td>1</td>
</tr>
</tbody>
</table>
affected their ability to obtain a job. As reflected in Table 4-12, over half are unaffected. Thereafter, the effect intensifies until three contractors felt they had lost 20 or more jobs because of lack of bonding.

Most of the bonding questions showed a bimodal response with one group totally unaffected by it and another group heavily impacted by it. When directly asked how much impact the bonding problem had on their ability to bid, this bimodal nature was clearly reflected. Twelve contractors stated bonding had little effect and eleven stated that it was a major problem. Again, we see the dual-needs problem.

The next series of inquiries concerning bonds involved their actual involvement with bonded jobs and situations where their bond application was rejected. Of the thirty contractors surveyed, 19 had actually tried to get a construction bond. Thus, 11 had not obtained bonds and that, basically, explains why twelve firms were not concerned with bonding. Most likely, they had not even tried to get one.

In Table 4-13, the contractors actual bonding experience is examined. There are more responses concerning bonded jobs undertaken than stated that they sought a construction bond. This difference can be explained, probably by the fact that they may have been involved with another party who had the bond or bond was obtained on their behalf by someone else. As can be seen, the frequency of bonding is widely distributed except for one situation. Eleven of the contractors had been involved with 9 bonded jobs. As is usual with this study, one contractor had a great deal of bonding experience. That firm had been
<table>
<thead>
<tr>
<th>NUMBER OF JOBS</th>
<th>NUMBER OF RESPONSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
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<tr>
<td>10</td>
<td>1</td>
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<td>12</td>
<td>2</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>150</td>
<td>1</td>
</tr>
</tbody>
</table>
involved with 98 or more bonds. Overall, the great majority had undertaken jobs involving bonds 20 times or less.

When a breakdown between government jobs and private jobs is made, one can see that these firms are more involved with the government sector than the private one. While only five firms had not done government jobs, eleven firms had not performed bonded private jobs. This information shows that the government sector is quite important to these firms in terms of the larger jobs. However, it should be noted that government jobs may have had more demanding bond requirements. Some private firms may not require bonds where, for the same size job, and the government does. The raising of the Miller Act minimum bonded job limit should help this situation during the 1980's. The responses to the different level of bonding jobs in the government and private sector are given in Tables 4-14 and 4-15.

The final section on bonding in the study consists of an analysis of situations where bonds were denied and some explanation for denial was given.

In Table 4-16, the frequency for times bonds refused in the last two years and the contractor felt that the job could be successfully completed, is given. Except for the one contractor, no person felt this event had occurred more than nine times. However, nine is a fairly large number of times and the fact eleven firms had this many experiences is worth noting. In fairness to bonding companies, business persons have been known to be overly confident in their skills and ability to do a job. One would suspect that
<table>
<thead>
<tr>
<th>NUMBER OF JOBS</th>
<th>NUMBER OF RESPONSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
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<td>8</td>
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<td>9</td>
<td>11</td>
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<td>15</td>
<td>1</td>
</tr>
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<td>20</td>
<td>1</td>
</tr>
<tr>
<td>98</td>
<td>1</td>
</tr>
<tr>
<td>NUMBER OF JOBS</td>
<td>NUMBER OF RESPONSES</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>0</td>
<td>4</td>
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<td>1</td>
<td>2</td>
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<td>18</td>
<td>1</td>
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<tr>
<td>98</td>
<td>1</td>
</tr>
<tr>
<td>NUMBER OF JOBS</td>
<td>NUMBER OF RESPONSES</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>0</td>
<td>11</td>
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<tr>
<td>1</td>
<td>1</td>
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<tr>
<td>98</td>
<td>1</td>
</tr>
<tr>
<td>99</td>
<td>1</td>
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</tbody>
</table>
### Table 4-16

<table>
<thead>
<tr>
<th>Number of Refusals</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
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<td>9</td>
<td>11</td>
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</tbody>
</table>
this trait would be found in the group of contractors interviewed. Nevertheless, there does seem to be significant feelings that the bonding companies were too strict. Perhaps if the contractors had been using SBA bonding, they would have had better success. The SBA Program should be able to provide bonding in situations like this one since it is designed to accept the higher risk contractor.

With respect to why bonds were denied, there were seven cases where the contractor was given some reason for the denial. The major reasons sureties gave, were a lack of working capital, a lack of experience, insufficient bank financing, and improper bookkeeping. Insufficient bank financing was the most frequently mentioned reason. It should be noted, the reasons given were one half external and one half internal. The bond companies seem to be more concerned about internal factors than the contractors.

When the contractors were asked what they felt were the reasons, they basically agreed with the bonding firms. The only exception being that several contractors felt they were being discriminated against. Given the low number of respondents to the original questions, three is a fairly high response rate. Rightfully or wrongfully, these firms feel that they have been treated in a negative manner because they are minorities.

Cross Tabulation Results

Throughout this chapter, survey results have been made on a univariate approach. One question has been isolated and information provided on that question or a series of similar questions. In this section, the
analysis is carried one step further and an examination of which type of firm is responding in a given manner is made. Various variables are analyzed with respect to firm size. Firm size is defined in terms of gross dollar volume in 1980.

Size Vs. Age

When one measured firm size and years in the business, one would normally think the larger firms would be the older firms. To a certain extent that relationship holds true in that two of the largest firms were nine or ten years old. However, two of the largest firms were only four and five years old. The oldest firm, which was 35 years old, had a gross dollar volume of between $50,000 and $100,000. In this study, the large firms were really quite young and a product of the decade of the 1970's. The fact that minority contractors could grow to this size in ten years, is encouraging. It shows that minority firms can obtain a sizeable amount of business in a relatively short period of time.

Size Vs. Type of Organization

As one would expect, the smaller firms were those that were unincorporated. All firms over $250,000 in volume were corporations. However, one small firm ($10,000 to $25,000) was a corporation and two firms between $100,000 and $250,000 were sole proprietary organizations.

Size Vs. Type of Business

There was really very little patterns between size and type of construction a firm performs. The landscape firms were two of the smallest firms, as was the lathing plaster firms. Among the larger firms, the structural steel, paving, general, electrical and excavating - grading categories were found.
Within a specialty, there was little concentration as regards size. Of the five electrical contractors, all five firms were in different size categories. The same situation exists with respect to the four flooring contractors, all four organizations were in different size categories.

**Major Problems Vs. Size**

This analysis presents some surprises. While those having concern about bonding were concentrated in the largest size category, there was a much greater spread than one might expect. Firms of many different sizes were concerned about the bonding situation.

Cash flow was a problem for the medium size firms. The largest and smallest firms indicated that this problem was not a major concern. Likewise, underbidding by competition was a problem of the middle or lower middle size firms. The three largest size categories had no major problems with competition underbidding.

The credit problem was universal. All size firms, except large ones, were concerned about credit. The $10,000 to $25,000 volume firms seemed the most concerned as three out of six in the category noted credit was a problem. As this size firm is usually in a rapid growing phase, such responses are to be expected.

The only firm to be concerned about the economy was a large firm. That result was somewhat surprising but one could explain it by stating that only larger firms had the planning time to be worried about the general state of the economy. Besides this item on the economy, there were several other concerns of the larger firms that seemed a little unusual. A concern over
qualified employees existed as well as finding jobs. For the most part, the smaller firms would be more interested in this topic. The responses on these problems were bimodal in terms of firm size.

The final size major problem cross tabulation that should be noted was that of prejudice. Five firms felt that this topic was a major problem and four of these firms were in the largest firm category. From these responses, one could assume that perhaps the small contractors primarily dealt with other minority persons or firms while the larger contractors were dealing with both majority and minority firms. Given the size of the contracts that the larger firms sought, one could expect competition to become quite rough and discrimination to raise its head. On the other side of the question, it is in the larger contracts where one would expect government policy to make discriminations the hardest to practice. The reasons for the large contractors to feel this way would make an interesting topic for another study.

Administrative Control Vs. Size

The analysis by size of this topic produced a wide variation of results. As would be expected, the owner record keeping category was only occupied by small firms. However, one firm with gross volume between $500,000 and $999,999 has its records kept by the spouse. Bookkeepers were found to be used by the smallest as well as the largest firms. However, no accountants were found in the small firm category and that was the approach utilized by the larger firms. Medium size firms also were heavy users of accountants while the lower middle used them less than half the time. The use of an accountant is a sign of organization complexity and is found primarily among larger firms. Likewise, the employment of an office manager is a characteristic of larger firms. However, tax consultants were utilized by a broad
range of firms. Taxes seem to cause almost any size firm to seek technical knowledge.

**SBA Loans Vs. Size**

When a comparison is made between size of firm and approaching the SBA for a loan, one finds only larger firms taking this approach. No firm with revenues less than $100,000 approached the SBA and only one firm with revenues between $100,000 and $250,000 took this action. The SBA is not considered a source of funds for the small to medium size firms.

**Job Identification Vs. Size**

In seeking new jobs, personal contacts were used across the board. Larger firms tended to use trade journals, information services, SBA, HUD, Department of Commerce and the General Services Administration more often. The Dodge Reports were used by many different categories. From this examination, it can be concluded that federal agencies are making a much bigger impact on the larger size firms. To the extent minority firms concentrate in the $10,000 to $100,000 size range, they are not being reached by these government agencies. Evidently, one must grow to a certain size before they are able to effectively communicate with these federal organizations.

**Bonding Vs. Size**

As in some other sections of this study, some surprising results are found when one investigates the relationship between firm size and bonding. As stated earlier in this chapter, the response to whether the bonding requirement hurt a firm's bid opportunities was bimodal. Most firms answered very
little or major problems. Few responses were made for minor, substantial or
very substantial. When firm size is added as another dimension, one finds
that all size firms fall into both categories or little concern and major
concern. In fact, more of the larger firms are less concerned than are
worried. However, the medium size companies express the greatest interest
in this topic. There seems to be some inconsistency among the large firms
on this topic. On one question, they express considerable interest on the
bonding topic, but when we asked if bonding hurt them in obtaining larger jobs,
they indicate it is of little importance. The medium size firms are consistent.
They are concerned in both cases.

When one reviews the relationship between size and bonded govern-
ment jobs, full participation by all types of firms is found. As would be
expected, the larger firms have been involved more often. The same situation
is not discovered with respect to private jobs. Medium size firms dominate
private jobs that were bonded. No large firm had more than seven private jobs
that were bonded. It does not seem that the larger minority firms are pene-
trating the private sector very well and perhaps that is why they feel dis-
 crimination is occurring. They are getting to participate on government con-
tracts but are less successful on private ones.

The final comparison in the bond area is between size and bond
denials. Again, we see a common pattern. Those who were denied a bond and
given a reason were the larger firms. Although the reason for denial was one
thing, they felt that some discrimination was involved. Of the three firms
believing bond denials were based on discrimination, two of them were large
firms.
Chapter 5

Summary and Conclusion

In this study the status and problems of small businesses have been examined. Since most minority contractors are relatively small, they have the problems of the small business person as well as those that are unique to their situation. These business environment problems make it quite difficult for a small minority business to achieve success. However, as stated in Chapter One it is very important to the state of Georgia to have successful minority enterprises. Our 25 percent of the state's population is comprised of minorities and as a consequence a significant portion of the state's economy is tied to the success of minority business persons. It will be difficult for Georgia to prosper during the 1980's if the minority community does not achieve positive economic development.

A major point of this study has been that a successful minority contractor environment can play an important role in achieving this economic development. The contracting business is said to have relatively low capital requirements. A person can go into the construction business using the home as an office and the garage as the warehouse. However, as mentioned in the study the construction business does have certain negative cash flow problems.

While up front capital for fixed assets can be minimal in construction, the construction process is basically operated on a negative cash flow basis. The contractor must purchase labor and material first, complete the job, have the work approved, and then payment is received. If several jobs are conducted
simultaneously, severe cash flow problems can occur. In terms of need for little capital, the property-liability insurance agency business is much easier to enter. An insurance agent needs little equipment and office space. Premiums are collected in advance and the agent keeps the commission and the rest of the premium is sent to the insurance company. In many profitable agencies, little capital is supplied by the agent. The agency actually operates off the float of the premium collection process.

This question of capital is of vital importance to the development of small businesses, as a lack of capital is always identified as a major problem. This study was no exception. One of the major problems identified was the lack of credit or cash flow. Another major concern was the inability to obtain bonds. However, one of the major decision variables for a bond underwriter is capital. Consequently, the capital requirement needs for the construction business should not be understated. Funds are needed to provide working capital and to feed the cash flow cycle. Adequate capital is needed to get bond underwriters to issue bonds. The construction business has considerable hidden capital needs and any program designed to aid small business persons to go into the construction business needs to be aware of the total capital picture.

As Brimmer, Case, Booms, and Ward have noted, it is a difficult path that a successful minority business person must follow. Pride and enthusiasm are not enough to achieve success. One must have managerial and technical skills to perform the job. A person must learn how to communicate with governmental and private organizations. These skills must be learned and the learning process takes time. A surprising fact discovered in this study was several of the larger contractors were a product of the 1970's. Several firms had developed gross
revenue in the millions of dollars in less than ten years. This development should be taken as quite remarkable and shows the task is not impossible. Minority firms can achieve financial success in a relatively short time. Whether they can grow to the Fortune 500 size in another ten years is another question. In fact it could be argued that once a minority firm reached a given size, it should be on its own. An organization that has nine digit sales really does not need special programs and help to grow. This statement does not mean such help does not occur. Lockheed and Chrysler are two good examples of massive federal loan supports to large multinational firms. A lot of people felt these firms should have been allowed to fail. One would suspect the major reason they were given aid is because of the unemployment impact if they failed. A major beneficial attribute of the free enterprise system is that failure occurs. Those firms or organizations that are strong survive and those that are weak are allowed to die. As a consequence the entire system should stay strong.

As a matter of social policy our society has decided to aid small businesses and minority businesses. This aid is important and helps overcome the monopoly powers of larger organizations. However, as a firm grows and gathers financial and managerial strength, it should be allowed to stand on its own. A major policy decision arises from this statement. When is a small business no longer a small business and governmental assistance removed? That policy question is beyond the scope of this study, but since one contractor had gross revenue close to $50,000,000, the decision would impact minority contractors' share of the economic pie in Georgia because that one contractor represents a large portion of all revenue flowing to minority contractors. Should that firm still receive special treatment or should it be allowed to compete on its own and smaller minority firms aided and encouraged to grow and prosper? In turn they
would eventually be allowed to stand free and a new group helped. This pattern of development is tangential to the GAO comments about the SBA bond guaranty program. The GAO wanted to see firms enter the bond program, gain experience and financial strength, and then enter normal bond markets. It felt that the firms should not remain a ward of the SBA bond program. While its position may be sound in theory, the timing may be wrong. It could take ten to twenty years for minority contractors and other small contractors to gain enough expertise and financial strength to be acceptable to standard markets. Especially if standard markets know the SBA program exists, and the small contractor can obtain coverage elsewhere. There is little economic incentive to accept high risk business. The need to perform ones social responsibility is reduced because the bond firm knows special markets exist for such business. Under such circumstances, the maturing process will take longer than it usually does.

Throughout this study, bonding and capital needs have been identified as problems. With respect to prior studies, it was known that capital was a problem but bonding was high on their list of concerns and their list for help. The present SBA programs in the bonding and loan area did not seem to be reaching these firms. Several had tried for SBA loans but only one was successful. It is most likely that these firms would be too weak to qualify but the fact is, they would not reach. Again the policy question arises, what size firms should be helped? If truly small firms are ignored, what is the impact to minority firms? It would seem the impact would be disproportionate to minority firms. Since they have been the last to be formed, it is more likely they are small. Based on the literature reviewed and the evidence gathered in this study, a strong case could be made for a special small business loan and bonding for minorities. Such a program
would be a set aside of whatever funds are available. It would require no additional funds. Such a plan would probably cause a reduction in funds and bonds for majority business persons. However, it would help guarantee a minimum percentage of these programs' funds to reach minority businesses. The present system does have some impact but it is not very visible in this study.

From a national prospective the SBA bond program has had problems. Perhaps a set aside for minorities could be developed as the national program is reviewed. One would hope that the SBA program would use traditional markets as much as possible. In the long run the program will be stronger if specialty firms do not dominate the programs.

If a firm could not write more than twenty percent of its surety business in the SBA program and the SBA did not have over ten percent of its business written by one group of common ownership, several of the prior difficulties may have been prevented. It would be difficult for a given firm or group of firms to build a specialty firm around twenty percent of its surety business. Likewise by not allowing any firm to write more than ten percent of the SBA's bond portfolio, the SBA program would not be dependent to the expertise of any one firm or a group of two or three firms.

There is nothing absolute about percentages suggested in this proposal, but based on the 1980 hearings, these percentages would greatly reduce the economic incentive which led to some of the abuses. If the economic incentive for abuse is removed, usually the problem has a way of disappearing.
Given some structure for company participation and a special set aside for minorities, the SBA bonding program can obtain its goal of aiding small contractors in general and minority contractors in particular. Such a set aside program would reduce the feeling of discrimination that this study indicates exists in the bonding process. Minorities would know that a given amount of bonding capacity was being set aside for them. However, again the question of size occurs because it was the larger firms that felt they were discriminated. Was it discrimination or the desire of the contractor to take on a larger job than the bond underwriter felt the contractor could handle? If the contractor were one of the truly large firms, should the government bond program still be available? Again this is a policy question but with the budget reductions taking place this year, and in the future, these tough decisions will have to be made. In a period of limited and/or decreasing resources, priorities must be established.

Another area of concern and need for assistance is the area of competition. The contractors quite frankly stated that they usually lost a job because they were underbid. The competitor was able to perform the task at a lower price. Again a social or policy decision must be made, does society desire the existence of minority contractors even if they are not as efficient as other contractors? If the answer is no, then the market will provide the answer.

If the answer is affirmative, then some market protection will have to be given. One such program is the set aside programs developed by the federal government. As Mr. Stockman reported good progress has been made in the area of minority participation in the federal procurement program. Federal contracts awarded to minorities have increased from $1.1 billion in 1977 to $3.1 billion in 1980. However, if continued growth is to occur, a matching of contractor
capabilities and government contracts must be made. If a governmental unit (local, state, or federal) has a set-aside program of say ten percent, it does little good if minority contractors cannot do the task. For instance, if the federal government tried to set-aside ten percent of a defense contract for electronics in the state of Georgia, problems could exist. The technical expertise of the contractors may not be great enough to do the job even if it were given to them.

In order for the set-aside program to work, there must be a matching of jobs and abilities. The capabilities of minority firms must be identified and matched to governmental contracts. It might well be that twenty percent of one type of contract will be completed by minorities and zero percent of another. If such a policy is followed, minorities will be able to achieve a greater share of governmental contracts.

If such a procedure is followed, it must be used very carefully. When minorities start to obtain a larger and larger share of certain type contracts, majority contractors will be forced out of that particular market. This situation may cause problems and some backlash. However, it may be the only way to obtain significant minority participation. It is unrealistic to expect minority contractors to develop in all the specialty areas of construction. Tradition and custom will cause a greater concentration in certain areas and if a set-aside program is to be effective, this concentration will have to be taken into consideration.

The final topic that deserves attention is that of technical assistance. Throughout this study attention has been made to internal and external factors.
Consistently, contractors have expressed concern about external problems (bonding, capital, competition) and have placed little emphasis on internal problems (technical expertise, administrative skills, marketing). Both Brimmer and Case discussed this topic and the problems associated with it. While the survey did not identify the need for technical assistance, its absence confirms the idea that most persons, majority or minority, are slow to criticize themselves.

However, without a doubt, small business persons need technical help in all areas of business: accounting, finance, management, and marketing. The question then arises, how does one provide this assistance? From the information found in this study, several approaches are feasible.

At the first level, technical assistance needs to be given in the field. Minority contractors must be identified and called on. Technically trained persons must be available to help the minority contractor. This requirement means persons with construction experience and/or industrial engineering background are needed. By industrial engineering, it is meant a combination of business and engineering. The minority contractor needs help in management and engineering.

Programs such as the Minority Contractors Assistance Project should be strengthened and made available in as wide a basis as possible. Another vehicle which is already in place is the SBDC. Much like the cooperative extension program brings technical expertise and farm management concepts to the farmer, the SBDC can bring the same knowledge to the small business person and minority contractors.
In the area of bonding a specialist position could be developed. Such a person would have general expertise in construction, business, and bonding procedures. He or she would call on minority contractors much like the area specialist is used in cooperative extension. Like the American farmer, the minority contractor would have access to expertise way beyond their ability to pay out of their own resources. Such a person could teach contractors how to make applications or direct them to those agents who are able and willing to work with minority contractors. The SBA bond program could be more fully explained and that program would have a better chance of reaching minority contractors. The SBA loan program would also be more able to serve minorities.

The major drawback to such a proposal would be cost. However, given the size of the SBA bond program and the magnitude of its losses over the past decade, it would seem that some of the guaranty money could be spent on providing technical expertise. It is quite possible with technical aid that more bonds could be written and fewer losses occur. Through loss reduction, the program would pay for itself.

In order to be cost effective, such a program would have to be started in those states where there is a heavy concentration of minorities. As used in this context, women would not be considered a minority. By placing such field persons in cities like Atlanta, Dallas, Houston, Chicago, Los Angeles, New York, and Detroit, a large public would be available to be served. The field person would be able to minimize travel and yet be close to the people who need the help. By attaching the field persons to existing administrative units, administrative overhead would be minimized.
In addition to limiting service to concentrated areas, the program would have to be limited (at least in the beginning) to those firms that have some probability of success. Screening will have to take place in order to determine which firms should be helped. Minimal size and age requirements would have to be established. If this selection process is not undertaken, visible progress will be much slower.

In conclusion it can be said for the firms studied in the state of Georgia in 1981, progress has been made in the area of minority contractor economic development. Several firms had developed into multi-million dollar operations during the decade of the 1970's. In terms of absolute dollars most of the work (of the surveyed firms) is done by a few large contractors and the other firms are fairly small. While progress has been made, problems still exist. Consistently, firms stated bonding and working capital were areas of concern. Bonding was difficult to obtain and there was a shortage of capital. Competition was also mentioned as a problem but this item is a problem for almost all businesses in a free enterprise system.

In order to help these minority contractors and others like them, it would seem useful for the federal government to target a percentage of the SBA bonding guaranty at minority contractors. Field persons with expertise with bonding rules and practices could be used to help minority contractors learn the bonding process and how to successfully obtain bonds.

While the federal government can provide technical and financial support to minority contractors, in the long run they will have to learn to stand on their own feet. Success will not come for most of them because like most small
businesses they will have a high failure rate. However, with each passing year
more will succeed, grow, and prosper. Eventually a visible segment of the
contractor community in Georgia will consist of minority contractors. With hard
working minority contractors and government policy that provides protection and
help in formative years, the goal can be obtained.
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