Small enterprise strategies in an unstable public environment

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Small Enterprise Strategies in an Unstable Public Environment

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Small Enterprise Strategies in an Unstable Public Environment

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Abstract

Many small business owners in the United States dream about getting a large contract with the federal government, feeling that their lives would be easier if they did. Ironically, there have been numerous occasions where small businesses have gone out of business after being overwhelmed by a government contract. This case study addresses how small businesses can improve their survival and success rate in the public sector with a strategic approach to their operations. It begins by discussing the preparation that goes into federal contracting by small businesses. Case examples of four American companies involved in contracting with the Department of Energy are evaluated. Data collection is achieved through qualitative analysis. The application of these conclusions could increase the survival rate of small businesses operating in an unstable public environment. The study is significant because this research widens contemporary assumptions about strategic thinking for small businesses engaged in government contracting.

Keywords: Strategic thinking; Small business; Public sector.

1. INTRODUCTION

Many small business owners in the United States dream about getting a large contract with the federal government, feeling that their lives would be easier if they did. Ironically, there have been numerous occasions where small businesses have gone out of business after being overwhelmed by a government contract. Organizations that have encountered this problem often do not think strategically about the long-term ramifications of their contracts. Most novice entrepreneurs develop a basic plan to secure a government bid and jump at any government opportunity. This is not strategic planning. Strategic thinking relates to a process that involves recognizing and focusing on issues and events that are significant in decision-making (Jones and George, 2015, pp. 186–187). It requires more than just planning. In fact, strategic thinkers understand the interconnection and systematic consequences of given situations.

As with most government agencies, the Department of Energy (DOE) is impacted by external forces that influence its budget and contracting levels. To some, DOE’s budgeting process may resemble a roller coaster. Most small businesses cannot afford this financial joyride, however. The General Accounting Office (GAO) conducted a study of leading companies to determine how they successfully reengineered their processes (General Accounting Office, 2002). GAO found that the top leaders applied a strategic approach to their businesses. When using this method, companies found that they could save millions of dollars and improve the quality of services. Likewise, small businesses should be able to duplicate the benefits of strategic thinking in their operations over time.

The purpose of this study is to evaluate the organizational planning of several small businesses in the midst of government changes that impact their businesses. This investigation is achieved by conducting a qualitative analysis of four small businesses contracted to DOE to determine the effectiveness of their strategies in a public sector environment. While the leaders of these organizations have varied backgrounds and have followed distinctly different career paths, they each have reached a high level of success in the business world due to their keen business thinking, enthusiasm, and vision (Daft, 2015, p. 55).
2. METHODOLOGY

This research uses qualitative content analysis for developing this specific case study involving four small businesses. The case study method has a long and respected history in the mainstream management literature (Graham, 2010). This article addresses gaps by mapping out the paradigms adopted by these small businesses in implementing their own entrepreneurial spirit. In the case study approach, data is collected in a variety of ways including interviews, observations, document reviews, record analyses, and work samples. Case study analysis is a qualitative method that allows the researcher to carry out an investigation where other methods, such as experiments, are either not practical or not ethically justifiable (Graham, 2010). In fact, Palmer and Brookes (2002) further noted that case studies represent a unique opportunity to obtain access to data that would otherwise not be obtainable. Through this methodology, researchers were able to gain new insight of small businesses operating in a public sector environment.

3. PUBLIC SECTOR MODEL

The federal government has tried to assist entrepreneurs by providing a working business model and giving them contracting opportunities. The Small Business Administration (SBA) manages two special business assistance programs for small businesses—the 8(a) Business Development Program and the Small Disadvantaged Business Certification Program. Participants can receive sole-source contracts worth up to $5 million (Small Business Administration [SBA], 2006a). The overall goal of this program is to groom small businesses so that they can compete in an open market. The Small Business Dashboard (2016) reports there are 4,354 active contracts totaling over $1.2 billion. The requirements for enrolling in these programs are extensive. The following SBA elements are used to select a potential small business in the program: (a) technical and managerial experience, (b) operating history, (c) access of capital and credit, (d) financial status, (e) record of performance, and (f) obtainment of any requisite licenses (SBA, 2006a). Despite this leg up, the reality still exists that many of these small businesses fail even with the traditional planning process, especially business planning.

4. GOVERNMENT CONTRACTING

Contracting with DOE can be rewarding to small businesses. With an annual budget of about $23 billion, DOE is the largest civilian-contracting agency in the United States (Department of Energy [DOE], 2003). Many small businesses are enchanted with DOE due to its attractive opportunities. To become a DOE contractor, the procurement office recommends the following for small businesses: (a) do the research, (b) prepare a company profile, (c) register the business in DOE’s procurement system online, (d) develop a niche, (e) respond to DOE Sources Sought Notices, (f) match expertise with DOE bid, (g) be flexible, and (h) make the business customer-friendly (SBA, 2006b). The federal government has a mandate that federal agencies award at least 23% of their contracts to small businesses. In 1994, DOE set a goal to have 25% of prime contracts go to small businesses; however, DOE awarded $3,029,100,000 in small contracts, or 34.5% (U.S. Senate Report, 2000). DOE has a special office to assist small businesses with getting through the government front door. DOE purchases billions of dollars in goods and services, which include administrative services, facility management, construction, manufacturing, engineering, security, waste treatment, consulting, data processing, and a host of other organizational needs (SBA, 2006b). There have been times when companies have secured these government contracts but did not have the resources to implement their plans. This study analyzes four small businesses at various maturity stages to gather information on how they were able to implement their plans. Visionary Solutions, LLC, LeGacy-Critique, Comfort Industries, Inc., and HME, Inc., were the small businesses interviewed. These companies have been able to survive turbulent times in the public sector.

5. SMALL BUSINESS PREPARATION

Small businesses must prepare their infrastructure to compete for government contracts. Cavanaugh Mims, the founder and CEO of Visionary Solutions (VS), LLC, started his company in 2000 with plenty of
vision and energy but lacked the large brand name of his competitors. Prior to VS, he was an emerging DOE manager. A nuclear engineer by degree, he had spent 12 years managing government contracts, including 4 years managing a commercial power plant. He had spent several years managing environmental projects that provided him with an understanding of a potential niche in DOE. Mims explained in a past interview, “I noticed that there were few minorities in field services. From my past [DOE] experience, I knew that this was an underserved area, and there was going to be a demand.” Armed with this knowledge, Mims started to lay the groundwork for his current organization. He started with one employee, himself. VS is a small business and minority business enterprise (MBE) providing proven solutions for complex issues involving transportation and logistics, program management, reclamation and recycling, industrial, and training services (VS, 2013). VS’s clients include DOE, Department of Homeland Security, Nuclear Regulatory Commission, Department of Defense, and Tennessee Valley Authority, to name a few. Although VS has managed to secure private contracts, 90% of its work remains in the government sector.

James Smith, president and founder of Comfort Industries, Inc., developed his business from his previous experience and from the hard-knock school of the business world. Smith left the comfort of his secure job with a DOE contractor to pursue his own business venture in 1996. He explains that his family and personal attorney gathered to discuss the planning for his business. He started with a small janitorial service that many believed would fail. However, Smith continued to work on his plan. Comfort Industries, Inc., is now a commercial and industrial service-contracting firm, providing concrete, rebar, framing, carpentry, project management, and construction cleaning services to the government and private industries. Comfort Industries is a minority-owned small business with 10 years of service (SBA, n.d.).

Some small businesses are started out of necessity to compete. Legacy-Critique was a joint project of two companies in 2010 (Listings.findthecompany.com, 2016). As a result of a successful bid by Legacy-Critique, DOE awarded a $27 million contract to LeGacy-Critique joint venture for administrative support services for the Oak Ridge Office in 2005 (DOE, 2005). The contract employed 94 people. LeGacy is a woman-owned small business located in Brentwood, Tennessee. The president is Chiquita Young, an ex-DOE employee. Services to DOE include the following: reproduction, graphics, database management, technical writing and editing, photographic support, mail and file services, payment processing, visitor assistance, records retirement, security clearance, clearance processing, coordination of foreign national visits, and other general office duties. Critique had the DOE contract for administration for several years; however, its success elevated them from the 8(a) status so that they could not compete on this contract. Critique already had the staff, project experience, and customer relationships. Partnering with LeGacy became a logical strategy for Critique. Frank Gethers, the project manager for this joint venture, views his management role as an integrator for employees as well as clients. With over 32 years of management experience in the DOE industry, Gethers understands the nature of contractor performance. Gethers explained in a past interview, “Ninety-five percent of small businesses fail because they don’t have a strategy or a business development [initiative]. You got to stay competitive.” Gethers mentions that Critique had an outstanding rating with the government. Critique’s success had elevated it out of the small business program. Matching up with an emerging small business, LeGacy, was a perfect option for the Louisiana-based company. Gethers manages approximately 105 employees on this contract.

In September of 1996, HME, Inc., started up with a goal to pursue DOE work. Henry Perry, owner of the company, built his experience base in the DOE system and developed strategic relationships over the years so that he would be prepared once his opportunity arrived. Perry’s experiences include over 20 years of construction experience, 5 years as a small business owner, and 4 years of management training. Perry worked for several companies gaining the experience he felt he needed to compete. Perry explained in a past interview, “I had to go the contract route [working for someone else]. I didn’t see getting into debt. Partnering is a winning situation.” The mission of HME, Inc., is to provide customers with superior, reliable, and efficient management and construction services in a manner that supports total quality controls (HME, Inc., 2016). Perry notes, “Dealing in the government arena forces you to think strategically.” He got his real opportunity in 1999 on a government contract. However, he didn’t have any workers to perform the work. Using a creative method and a persistent attitude, Perry was able to acquire the employees and perform the work. One success built on another. As a result, Perry found himself in demand.
6. STRATEGY IMPLEMENTATION

Implementing a contract within the government is where strategy meets the reality test. How critical is it to implement a strategy while building and sustaining a competitive edge? If organizations desire to be successful in hypercompetitive environments, their leaders must engage their employees so that all components of the sociotechnical system are in perfect alignment. Successful businesses operate in the present while preparing for the future. Wacker, Taylor, and Means (2000) describe this leadership attribute as duality. Deresky (2014, pp. 81–82) labeled it plainly as future focus. Mims kept his strategic thinking simple. Mims acknowledges that he used a supply chain approach for his customers. His success in the government-contracting arena has brought him closer to his vision. Mims strategically pointed out two key dates (2005 and 2010) toward which his organization needed to build its infrastructure. These dates represent large DOE contracts paying big dividends.

From the very beginning, Mims relied on strategic alliances to build VS. The first effort of his firm involved waste management and transportation. To secure his first contract, he had to depend on another company for trucks and drivers. He succeeded and continues to use strategic partnerships and contracts to build infrastructure toward the next key date. Although VS would be better positioned to secure small business contracts, Mims maintains that most of his contracts have been awarded in fully open competition. He notes that he has been able to beat larger competitors because his company has leveraged its strengths (being small, flexible, and innovative). Mims acknowledges, “We can make a decision in 30 seconds. Larger companies have to wait and talk it over with the board to see if it’s a risk they are willing to accept. We are fast and flexible.”

Likewise, Perry has built HME, Inc., slowly by adding additional skills to his core capacities. He understands where he wants his company to be but explains it is a difficult task to reinforce this vision to staff. Perry clarifies, “No one is going to care about your business like you.” Perry’s hands-on approach promotes his vision and strategy to staff. However, he prefers to manage his managers. He provides guidance to his managers on what needs to be done. Perry set the standards by conveying the thought that “can’t” is not in his company’s dictionary. Perry provides the resources to meet his clients’ needs and expects these needs to be met. He rewards good performance but finds no room for nonperformance. Smith has successfully managed to implement his plans for the company. His company moved beyond his initial step of janitorial services into other areas such as construction and project management. At one time, Smith had employees in seven states. Currently, he employs approximately 40 people. Comfort Industries, Inc., is headquartered in Knoxville, Tennessee. Partnering with his competitors has not been a part of Smith’s strategy. Smith explained that when his first project got started, he tried to team with a competitor. He felt that they were the most attractive two companies on the bidding list. Smith was surprised to find the competitor was awarded the job. He knew the winning contractor but was unaware that he had bid on the job. It is a lesson he will always remember. Smith’s motto is to “have lots of plans in case one of them doesn’t work out.” Therefore, he plays “what if” scenarios in the contracting arena. His company has been successful. Smith admits that keeping the company’s vision in the minds of employees is a difficult task. He explained, “I do it by example. Don’t let anyone outwork you.” It is an expectation he communicates to his staff by example. Smith can be found cleaning floors or doing duties he could delegate to his employees. He feels being connected to the work and employees is an advantage.

Frank Gethers understands the nature of implementing a vision in the LeGacy-Critique venture. Gethers started in the DOE fusion program, where he was responsible for turning scientific concepts into proven results. Although Gethers realizes that most of his employees understand DOE expectations, he finds it important to reemphasize the company’s mission. Gethers explains, “I believe in leadership. I try to conduct training for my managers to help them.” He further explains that his organization uses several other techniques to keep this sociotechnical system in harmony. LeGacy-Critique’s strategy includes management meetings and management retreats, quarterly meetings with all employees, and communication regularly with e-mails. Like other small businesses in this study, Gethers’s company has had to turn down alliances and contracting because it was not in their long-term interest to pursue it. Gethers argues, “Why waste your time in an area that is not your niche?” Again, the myth that small businesses will accept any contract is not indicative of these successful small businesses.
7. FORECASTING SUCCESS

Past success for small businesses is no prerequisite for future success, especially in the governmental arena. Political and legal threats continue over SBA’s role in providing small businesses with an economic advantage and the economic landscape is continually changing (Steiner and Steiner, 2012, pp. 558–559). Small businesses that were successful in one timeframe are not guaranteed to be successful in the next. The past both helps and haunts a small business leader. The past helps leaders because it gives them a reference point for solving similar problems. Consequently, the past provides a leader with an arsenal of proven solutions. This strategy works in a stable, predictable environment. Conversely, the past can also betray owners when this situation is not the case. In times of rapid change and uncertainty, a leader’s past knowledge becomes a liability because a leader can make the wrong assumptions. With the passing of time, many businesses undergo various stages in the life cycle of a business. Small businesses are not the exception but follow this business life cycle. SBA notes numerous reasons why most small businesses fail, such as lack of experience, insufficient capital, and unexpected growth; however, market uncertainty can be one of the hardest things that small businesses must face (SBA, 2006c). This problem can leave a small business owner in a quagmire of constant environmental change. The DOE market has changed. DOE has fallen short of its small business prime-contracting objectives in four of the last 5 years. In 2005, DOE set a contracting goal for small businesses at 5.5% but fell short with only 4.15% awarded to small businesses (Butterfield, 2006). Therefore, the DOE contracting pie is getting smaller while competition is increasing for small businesses. Shrinking government dollars is a concern for any business owner who wants to survive in the public sector. The four companies evaluated are now confronted with new challenges, which will test their business IQ (see Table 1).

Visionary Solution, LLC, has aggressively moved toward its major organizational milestones. Now awaiting the results of the first strategic milestone, Mims recognizes he will need to make some small adjustments to his plans. Although DOE continues to delay his strategic dates, Mims managed to exceed his expectations both of the number of employees he would need and of his financial backing. As VS continues to grow in

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<tr>
<th>Date Started</th>
<th>Comfort Industries</th>
<th>HME, Inc</th>
<th>LeGacy-Critique</th>
<th>Visionary Solution, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Capabilities</td>
<td>Concrete construction Framing/carpentry Rebar construction</td>
<td>Facilities support Management services General Construction/ mowing Service Seismic rehabilitation</td>
<td>Records management Security Financial support Administrative Support</td>
<td>Transportation and logistics Training Technical services and waste management services</td>
</tr>
<tr>
<td>Target Market</td>
<td>Private</td>
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<td>*Strategic Approach</td>
<td>“What ifs” scenarios Vision &amp; objectives Mega, macro, &amp; micro planning Paradigm changers</td>
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Note. These approaches were gleaned through the discussions, interviews, and company literature. This list does not represent an exhaustive list of techniques used by these companies.
size and location, Mims recognizes the potential problems. Mims explains, “The bigger you get, the harder it is to communicate.” He acknowledges VS may not use other communication tools to stay connected. His simple strategy, consisting of people, capital, opportunity/experience, and infrastructure, has allowed him to maintain steady growth and increase his core capacity. However, his competitors have not underestimated Mims, because more and more businesses are entering this once underserved market. Mims maintains he will not change his approach. He explains, “I don’t change my plays. I just keep working to my strengths.” Currently, VS is 95% DOE work and 5% non-DOE work. Mims’ goal is to be at a 70-30 split in 18 months. Mims, however, admits he must adjust his planning to counter the government’s uncertainty. Mims already acknowledges DOE will probably push back his second key dates several years. Comfortable Industries, Inc., is seeking to expand in the government sector. Even with his government background as a contractor, Smith realizes that breaking into government contracting is no easy road. In the past, Smith has avoided strategic alignment with other companies. It is unclear if he will need to do so, however, in order to secure a viable contract. The first step for Smith has been getting his company DOE approval for a security clearance. Smith hopes that his prior experience in the DOE environment will be an asset for success in the DOE environment. Smith understands the challenges ahead. Smith explains, “I thrive on people telling me it can’t be done.”

Legacy-Critique has a history of success in the DOE system, but its future may still not be certain. Legacy-Critique's contract will run through 2010, with a 2-year base and three 1-year options. How will Legacy-Critique position itself at the contract closure? It is a thought that does not leave Getters as he handles the day-to-day operations. Getters maintains, “Copper and relationships are all we have. When I talk about copper, I’m talking about the metal that coins are made from. We can’t lose focus of our customer. We need to watch the customer strategy.” Getters warns that his organization cannot be comfortable with its high ratings from the customer or as the largest administrative contractor for DOE in Oak Ridge. Getters acknowledges, “You need to stay competitive.”

Perry can now focus on more out-year planning. His company is relatively stable. Since he and his wife are the senior leaders for the company, Perry considers the reality of retirement as he constructs for his company. Currently, his company is 98% financed through government contracts, primarily DOE. Perry focuses on more diversification (at least with the government) by partnering with another firm to secure another bid. Perry relates to struggle to get the right people for his niche business. For example, he explained it took him over 5 years to find the right accountant. In times past, he used accountants who were highly respected in their industry. Things would work well for a short period; however, there would be problems. Perry found that these accountants did not know how accounting works in a government environment. It was a painful lesson for Perry. Now, as he pursues a more diverse work portfolio, he will need to find the right work, the employees with the right skill mix, and the right strategic approach. He plans to work with another firm to pursue work with the Department of Defense. Perry understands the risks associated with doing this activity. He explains, “You have the cost of putting together a proposal and the issues associated with dealing with the whole procurement process.” Obviously, managing a small business will continue to provide difficult challenges to these visionary leaders in the government environment.

8. CONCLUSION

The investigation critically evaluates four American small businesses in the confines of a hostile business environment in the public sector. The study demonstrated that today’s leaders must interpret the organization’s vision to their employees. There is a widely believed myth that 9 out of 10 new businesses fail in the first year. Headd (2003) argued that this is not the case. He found that only one-third of new businesses closed under negative circumstances. However, Headd found the leading factors for business survival were good starting capital, an educated owner, adequate resources, and good people. In addition, this evaluation demonstrated that successful small businesses could utilize strategic thinking in the public sector. These small businesses have looked beyond the present government contract to address future opportunities and challenges. The cases that the present paper examines support the conclusion that successful small businesses can improve their chances of developing, growing, and maintaining their presence in government contracting with a strategic approach to business thinking. Applying this conclusion could increase the survival rate of small businesses operating in an unstable public arena. Researchers and practitioners
interested in small businesses in the public sector will find the postulated concepts beneficial and significant, because they widen contemporary assumptions about strategy thinking for small businesses engaged in government contracting.

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