



Pedro Alfonso says his company was built with help of preferences.

Crucial Break or Unjustified Crutch?

Minority-Owned Area Firms Call Affirmative Action Vital

By Peter Behr

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Pedro Alfonso, proud of his efforts in creating a \$19 million technology and services company in the District, says he could not have done it without a boost from several affirmative action programs.

"I wish I could say I got it totally on my own," said Alfonso, founder and chairman of Dynamic Concepts Inc., which last year ranked 77th on Black Enterprise magazine's list of the nation's top 100 firms owned by African Americans.

Alfonso belongs to one of the largest clusters of minority-owned firms in the nation,

centered in the Washington region. Many have thrived because of procurement and services contracts channeled to them by the federal government. In the Washington metropolitan region, 977 firms benefited last year from the Small Business Administration's main program for minority and women-owned businesses, or one out of every five in the nation.

The concentration makes this area particularly vulnerable if recent demands for a roll-back of affirmative action policies, spreading from the courts and Congress to the 1996 presidential campaign, take root. Critics say the programs unfairly benefit minority firms,

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simply because they are minority-owned, and can foster dependence.

Last year, the region's minority- and women-owned firms received more than \$2 billion in contracts from federal agencies through programs that earmark funds for such firms or give them an advantage in competitive bidding. Economists say that procurement contract dollars constitute a vital source of income to the minority business community, although precise figures will not be available until a new national economic census is released this summer.

A rollback of affirmative action policies that give preference to minority- and women-owned firms could be devastating to many of them because they lack the capital, connections and experience needed to compete against larger firms on an even footing, according to a number of consultants who have studied the issue.

"The availability of government contracts makes a huge difference" to the survival of small companies, said Mariana A. McNeill of M&R Associates, a Rockville group that has studied federal contract awards to small businesses.

That is particularly true for minority firms, said Adele Jackson, whose Bethesda consulting firm has reviewed affirmative action programs in a dozen cities, including the District.

"Despite our best expectations for society, there is not a level playing field," she said. Without affirmative action efforts, minority firms tend to have less information about contract opportunities and less access to helpful contacts and capital than white-owned firms, she said.

Two very different kinds of minority-owned businesses are at risk, experts say. In one category are providers of local government services, such as construction firms, health care and child care providers and maintenance firms. A second, newer group includes professional service firms such as Alfonso's, which have benefited from federal contract dollars spread around the Beltway.

Edward C. Merrill, director of telecommunications and networks for Soza and Co., a minority-owned technology services company in Fairfax, said the ranks of minority-owned professional services firms would be hard hit. "I can only think of a few that could compete on a toe-to-toe basis" with larger firms, said Merrill, a veteran of 20 years in government procurement competition.

Affirmative action creates a sheltered environment for small, minority-owned firms that work in the specialized niches called for by government contracts. Without that shelter, firms would be confronted with bigger, more seasoned companies with deeper pockets and more flexibility to respond to new opportunities, Merrill said.

Although it is not clear how far a Republican-controlled Congress might go in altering affirmative action programs, a sharp reappraisal of these policies has begun. It is focused primarily on the SBA's 8(a) program, one of the oldest and most controversial avenues of government assistance to minority firms.

Under the 8(a) program, agencies can give work to small minority-owned firms on contracts of less than a range of \$3 million to \$5 million without competitive bidding. Above those levels, a contract can be reserved for 8(a) firms that bid competitively. After nine years in the 8(a) programs, minority firms "graduate," losing their eligibility.

In a hearing Monday before the House Committee on Small Business, beneficiaries of 8(a) contracts said the program has provided key support to economic opportunity in minority communities.

Critics said the program has primarily enriched a relative handful of minority firms whose owners are not at all disadvantaged. According to the General Accounting Office, about 1 percent of the 5,155 firms in the 8(a) program received one-quarter of the \$4.4 billion in contract dollars awarded in fiscal 1994.

"In almost every program—SBA, the Defense Department—it's just a

few [minority-owned] firms that dominate the programs," said Arnold O'Donnell, vice president of O'Donnell Construction Co. His company won a court ruling against a District set-aside program that reserved 35 percent of road construction contracts for minority-owned firms.

"You give a handful of firms a preference every single day, not once to get them started, or twice, but year after year. It's just a giveaway to those firms," O'Donnell contended.

Such complaints have fueled a backlash against affirmative action.

Led by Senate Majority Leader Robert J. Dole (R-Kan.), many Republicans in Congress are urging a "color-blind" approach to federal contracting that would help disadvantaged firms but not base assistance purely on the race or sex of company owners.

The Supreme Court is considering a challenge to a key 1980 court decision approving the reservation of federal contracts for minority firms as a remedy for past discrimination.

Defending the preferences, Alfonso said they helped build the foundation under his company, just as technical training through an affirmative action jobs program for high school graduates lifted him over the first big hurdle toward a business career.

Alfonso's firm, which has outgrown, or "graduated" from, the SBA minority preference programs, is now in a difficult middle ground, he said: too big to receive direct federal government help, yet still too small to compete on even terms with most Fortune 500 companies.

"Many of the white-owned firms have the networks, the access to relationships and capital that minority firms—black and Hispanic—can't get to," Alfonso said. "Eventually we may become a society that's totally color-blind. We're not there yet."

The SBA program has been operating for 25 years, but minority-owned businesses still represent less than 6 percent of total federal procurement dollars, SBA Deputy Administrator Cassandra M. Pulley said. "It's still very much an old-boy network. If you're not an 'old boy,' it's tough."