

Written Testimony of  
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Before the  
**U.S. House of Representatives**  
**Committee on Small Business**  
**Subcommittee on Economic Growth, Tax, and Capital Access**  
**“Exploring Challenges and Opportunities Faced by Underserved Businesses in the 21<sup>st</sup> Century”**

**Rayburn House Office Building Room 2360**  
**Thursday, February 7, 2019**

Good Morning Chairman Andy Kim, Ranking Member Representative Kevin Hern and the distinguished members of the Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access. It is an honor to provide testimony at the hearing entitled “Exploring Challenges and Opportunities Faced by Underserved Businesses in the 21<sup>st</sup> Century.

**Background**

I am Sharon Roberson Pinder, President and CEO of the Capital Region Minority Supplier Development Council. I’ve been president of the Council for 4 years. My work in the diversity and inclusion space formally started in 2003 when I was appointed by Governor Robert L. Ehrlich as the State of Maryland’s first ever cabinet level Secretary for the Governor’s Office of Minority Affairs.

During my first three years as Secretary, the number of contracts awarded to Maryland’s women and minority businesses increased from 15% to 22% and payments to them increased by \$1 billion. I am also very proud that we created Maryland’s Small Business Reserve Program – the country’s first state level set aside for small businesses.

In 2012, I was appointed by then Mayor Stephanie Rawlings Blake as the Director of the Mayor’s Office of Minority and Women-Owned Business Development (MWBD) for the City of Baltimore. As a member of the Mayor’s cabinet, I was responsible for the management of the City’s minority and women-owned business programs. During my tenure we developed and implemented the supplier diversity and inclusion strategy for the City of Baltimore.

In addition to my appointed positions I have been an entrepreneur. My businesses included The Pinder Group and The Center for Business Inclusion and Diversity. During my years as an entrepreneur, I created the **Top 100 MBE Awards©** program. In its 12<sup>th</sup> year, it is the mid-Atlantic region’s premier recognition ceremony for minority businesses.

I began my work as president and CEO of the Capital Region Minority Supplier Development Council in 2015 and in my first 18 months of my tenure, CRMSDC won \$4 million in grants from the U.S. Department of Commerce Minority Business Development Agency for a new

MBDA Business Center, Capital Region, and the nation's only Federal Procurement Center solely dedicated to helping MBEs obtain federal contracts. We also implemented several signature programs significantly enhancing services to both corporate members and MBE suppliers.

I share this background information with you to give you a sense of my ability to look at the topic of minority business as an entrepreneur, from the vantage point of government (state, local, and federal levels), the private sector, and as a non-profit entity.

The Capital Region Minority Supplier Development Council (**“CRMSDC” or “the Council”**) is a non-profit (501 (c)(3)) organization located at 10750 Columbia Pike, Suite 200, Silver Spring, MD 20901. The Council is one of 23 regional affiliates of the National Minority Supplier Development Council (NMSDC).

The Council was founded in the aftermath of the riots following the assassination of Dr. Martin Luther King. As various federal commissions undertook studies to determine the root causes of violence in the cities, so did corporate America. Their studies determined that the root cause of unrest was lack of access to the American Dream of life, liberty, and the pursuit of happiness. This dream requires money, ( i.e., jobs, income and business revenue and relationships). The study led those corporate executives to the implementation of trade fairs and job fairs to provide jobs for residents and business opportunities for minority businesses. Their activities coalesced into the establishment of the corporate-led National Minority Purchasing Council with regional affiliates. The Greater Baltimore Minority Purchasing Council was founded in 1972. It later merged with the Greater Washington Minority Purchasing Council and, with subsequent national name changes, became the MD/DC Minority Supplier Development Council. In 2013, through mergers, the name was subsequently changed to its current name of the Capital Region Minority Supplier Development Council. (refer to history video and attachment) <https://www.youtube.com/watch?v=7euJ7XSUz40>

The significance of the establishment of NMSDC was that it was built of the idea of economic development and wealth creation in minority communities. It was the hope of NMSDC's corporate founders that an employed minority community and a vibrant minority business community would help to generate income that could be spent by that community to buy the products and services of corporate America. It would also create an economic sense of wellness that would lessen chances for violence in the streets. NMSDC established the regional councils to certify minority businesses and to provide a link to their corporate procurement departments. CRMSDC also offers highly impactful training to the leadership of MBE firms at business schools such as Kellogg, Tuck and others. Additionally, it has offered similar training locally, with the result that many minority business leaders are able to move their firms from start-up and sub-contractor status to fully sustainable businesses. The impact of CRMSDC's activities is that its nearly 350 MBE firms generate over \$3 Billion in revenue and employ approximately 20,000 people. This tracks well with the data from NMSDC nationally where 1,595 corporations work with 12,000 certified minority firms to create \$400 Billion in output and 2.2 million jobs. (See attached graphic data from NMSDC)

## Understanding the Root Cause

The most profound law ever enacted was Public law 95-507. It is the foundation, cornerstone of all of these programs. Forty-one years later, the goal of these programs still remain the same..... to develop competitively viable companies. The vision is for companies to have the ability to compete fairly in an open marketplace in the absence of these programs.

In 1978, major changes to the Small Business Act were made with the passage of Public Law 95-507. The intent of the 95<sup>th</sup> Congress and the new law's stated goal was to provide opportunities for small business concerns of disadvantaged owners to participate in the performance of government contracts. In particular the law sought to create the opportunity for full participation for socially and economically disadvantaged groups that have suffered the effects of discriminatory practices. These groups include, but are not limited to, African Americans, Hispanic Americans, Native Americans, and other minorities or culturally disadvantage groups.

## Key Points of the Original Law

Some of the key points of the law are:

- Participation by large businesses in some type of Small Business Program mandatory instead of voluntary
- Changed "best efforts" to "Maximum Practicable Opportunities"
- Required a small business inclusion plan for procurements
- Determined disadvantaged business concerns as being both socially and economically disadvantaged
- Established the Office of Small and Disadvantaged Business Utilization.

The late Congressman Parren J. Mitchell and the late Senator Edward Brooke were the authors of Public Law 95-507. Mr. Mitchell used his tenure as Chairman of the Small Business Committee to make a significant difference in the lives of small, women and minority businesses. As a native Baltimorean and child of an inner city entrepreneur, I lived in Congressman Mitchell's district and grew to understand the significance of his actions.

As Chairman of the Small Business Committee, Congressman Mitchell attached an amendment to a \$4 billion public works bill that compelled state and local governments, seeking federal grants, to set aside 10% of the funds to retain minority firms as contractors and subcontractors.

**There are a couple of things that deserve the Committee's attention:**

SBIC

This legislation created the 8a program as we know it today. It also created the Minority Business and Small Business Investment Companies. A little-known program within Small Business Administration (SBA), the Small Business Investment Company (SBIC) program is a private equity lending company which is licensed and regulated by the SBA. SBIC's offer

venture capital financing to higher-risk small businesses and SBIC loans are guaranteed by the SBA.

When we look at the intent of the SBIC program. In light of the historical barriers to access to capital, we have to ask, why haven't the SBA licensed more minority small business investment companies?

8A

The SBA is suppose to the prime contractor and the work subcontracted to the minority business. By removing themselves from the process, the minority business has lost protection. has outsourced its statutorily mandated responsibility of oversight of the 8A program. This action removed the protection layer for businesses. There is no appeal process when a company runs into problems. Consequently, there is no way of managing the survivability and sustainability of these companies.

OSDBU

Under Public Law 95-507, the Office of Small and Disadvantaged Business Utilization is supposed to report to the head of the agency. Without direct access to decision makers, the OSDBU function is buried so deep within the organization that it often hinders their ability and power to execute the program.

Meeting Goals – the Artificial Measure.

We have become so obsessed with making numbers, and meeting goals, that we've missed the purpose of the programs and why it exist. We've become obsessed with 'have you met a goal?'. This obsession deflects issues associated with what it takes to build capacity in order to compete by these firms. We should be developing these companies, so if these programs leave tomorrow, these firms will have the capacity to be competitive in the marketplace. Additionally, the true measure of success for minority businesses is actual payments versus contract awards. To be given a contract award is good news, but it only matters when you are execute, employ and get paid in a timely fashion. Actual payments is the measure of success for small businesses.

Reviewing Subcontracting Plan

Major corporations doing business with the federal government should be submitting subcontracting plans to be reviewed by the SBA. It appears that reviews are done via a selection process. The truth is that all subcontracting plans should be reviewed. The absence of these types of reviews speaks to the lack of accountability and compliance.

### **Challenges**

Our challenge is to figure out how we increase the probability of success for small, women and minority-owned firms. How do we create the environment where entrepreneurs have the courage to choose this path for wealth creation and passion. Where entrepreneurs are treated like rock stars and are comfortable putting capital at risk, reputations on the line, and ideas in harm's way, in an attempt to create jobs, wealth, economic opportunity, and ultimately

fortify hope. Our failure to figure out this dilemma will create a strain on our nation's financial growth and our economic future will be in jeopardy.

Capital forms the lifeblood of all businesses, allowing for payroll, investment, and overall sustainability. Minority-owned businesses face a harder time accessing capital (loan denial rates for firms owned by people of color are three times higher than non-minority firms) and accessing good capital, as we typically pay higher interest rates and receive lower loan and equity investments.

Minority businesses typically have a harder time bootstrapping their businesses. Bootstrapping can be defined as operating your business without capital. Starting businesses without capitalization hinders the growth and trajectory of that business. The other key ingredient is relationships. Business is about relationships and turning those relationships into revenue. Minority businesses typically do not have the relationships that help propel businesses into the next level of growth.

Our lack of networks is a real handicap. Not being involved in the planning process is a hinderance. Minority businesses are typically late in the business cycle because they are not a part of the planning process of major procurement opportunities.

According to the Census, African American women-owned businesses are the fastest growing segment of all businesses. Minority business ownership (Source: PBS News Hour):

- 11% are African American-owned
- 53% are Asian-owned
- 32% are Hispanic-owned

Contracts determine the success of companies. They bring in revenue, establish a track record of success, and allow businesses to grow. Corporations and government agencies increasingly embrace supplier diversity, the proactive strategy of contracting with businesses owned by historically marginalized communities. However, diverse businesses still receive an appalling lack of contracts. In 2014, Fortune 100 companies spent just 4.8 percent of total contract dollars with minority-owned businesses, with many government agencies performing similarly. (Source: Black Star News)

The World Economic Forum ranked the U.S. as number twenty-three (23) out of thirty (30) developed countries for economic inequality. The country ranked worst in the economic inclusion category which includes measurements of the level of poverty, and the distribution of wealth and income. It also ranked low in social safety nets, efficiency of public goods and services, labor compensation and employment. (Source: The Atlantic)

Diverse businesses play a critical role in closing the racial wealth gap and shaping the larger economy. The threat or the real issues still remain in three ways: access to capital, access to contracts and access to key relationships.

## **MBE Programs 2.0**

Many programs and ideas aimed at leveling the playing field have existed for over forty years. I've been taught by my mentors that "public policy defines the behavior in the marketplace". Through their national network and years of study on this topic - Anthony Robinson, Esq. of MBELDEF (Minority Business Education Legal Defense Fund) and Franklin Lee, Esq of (Tydings and Rosenberg, LLP) – are proteges of Congressman Mitchell and the country's leading authority on socio-economic issues. Across this country they witnessed that enormous gaps exist between current measures of minority and women availability and the number and relative size of minority / women-owned firms that you would expect to exist across the country. These gaps are not without severe consequences for the economic health of the country as a whole.

Entrepreneurship still remains the key element of the American Dream. For millions of Americans, starting and owning a business has been the route to success, security, and providing for one's community. This is particularly true for people of color, who face disparate unemployment rates and obstacles breaking through the "good old boys network" to secure good, stable jobs.

When minority-owned businesses thrive, communities of color thrive. Diverse businesses, which are more likely to hire locally and employ people with similar backgrounds, work as powerful forces for economic development. Communities of color will become the majority by 2044; how minority-owned businesses fair will determine the sustainability and strength of the nation.

Our nation's economic history is rich with examples of public policy and government action facilitating the spirit of entrepreneurship and directly contributing to the success of capitalism. At critical junctures throughout the industrialization of America, the federal government has proactively re-directed the flow of commerce and, in effect, has launched the birth of countless new giants of American industry. From the issuance of federal land grants that were essential to spurring the growth of railroads and to breathing life into the telegraph and telephone industries, from the granting of licenses and broadcasting frequencies to radio and television companies, and from the construction of the federal highway system, to the creation of the aviation and aerospace programs, the government has been a willing partner in forging a path for new industries.

For example, the adoption of "air mail" as the primary mode of transportation for the U.S. Postal Service, coupled with USPS's subsequent assignment of airmail transport contracts to a number of fledgling airlines, placed many of them on a sustainable path that ultimately led to a burgeoning private passenger airline industry. More recently, with the building of the global infrastructure for the internet by the Defense Advanced Research Projects Agency (DARPA), the federal government has been instrumental in establishing a fertile environment for the launching of an enormous global information technology industry. In each of these instances, government has often directly accelerated the growth and success of well-recognized corporate giants.

The most obvious downside from much of this historical government intervention and direct assistance to the private sector has been that so much of it occurred at a time in history when people of color were not allowed in the room as equal participants, and were presumed to be unqualified and unfit to compete in business.

Across the country economic deserts exist (particularly in our major cities) and today mirror the segregated history of our past. The fruits of past patterns of investment and the devastating societal effects of past economic exclusion limited to the generation in which they occurred? Not necessarily. The reason is because in all of the ensuing years, never once has there been a concentrated, purposeful effort to re-direct the flow of commerce to irrigate those deserts, and to establish a fertile environment or “ecosystem” for business formation and growth to truly flourish within these communities. Without such intervention, the economic climate has been painfully slow to evolve. In all likelihood, a significant degree of the persistent racial economic inequalities that we continue to observe in our society today are most likely a lasting stain that Jim Crow’s legacy of racial exclusion has left upon our economy.

Timing is everything. This is a critical juncture in our history and an opportune time to use the model of purposeful and intentional support from the government. Today’s minority businesses can be tomorrow’s moguls. Whereas past discriminatory practices prevented their participation in the building of some of the nation’s top industries, today there is an opportunity. Minority businesses are capable and can benefit by being at the table during the infancy of today’s emerging industries and technologies. As in the past, in partnership with the government, as that industry grows, the altitude of minority businesses will excel as well.