INFORMATION TO USERS

This was produced from a copy of a document sent to us for microfilming. While the most advanced technological means to photograph and reproduce this document have been used, the quality is heavily dependent upon the quality of the material submitted.

The following explanation of techniques is provided to help you understand markings or notations which may appear on this reproduction.

1. The sign or "target" for pages apparently lacking from the document photographed is "Missing Page(s)". If it was possible to obtain the missing page(s) or section, they are spliced into the film along with adjacent pages. This may have necessitated cutting through an image and duplicating adjacent pages to assure you of complete continuity.

2. When an image on the film is obliterated with a round black mark it is an indication that the film inspector noticed either blurred copy because of movement during exposure, or duplicate copy. Unless we meant to delete copyrighted materials that should not have been filmed, you will find a good image of the page in the adjacent frame.

3. When a map, drawing or chart, etc., is part of the material being photographed the photographer has followed a definite method in "sectioning" the material. It is customary to begin filming at the upper left hand corner of a large sheet and to continue from left to right in equal sections with small overlaps. If necessary, sectioning is continued again—beginning below the first row and continuing on until complete.

4. For any illustrations that cannot be reproduced satisfactorily by xerography, photographic prints can be purchased at additional cost and tipped into your xerographic copy. Requests can be made to our Dissertations Customer Services Department.

5. Some pages in any document may have indistinct print. In all cases we have filmed the best available copy.

University Microfilms International

300 N. ZEEB ROAD, ANN ARBOR, MI 48106
18 BEDFORD ROW, LONDON WC1R 4EJ, ENGLAND

Downloaded from SHAREOK. Persistent Handle URL: https://hdl.handle.net/11244/4847

8116591

BECKER, FRED WILLIAM, JR.

FACTORS AFFECTING THE DISTRIBUTION OF PROCUREMENT AWARDS FOR EXTERNAL ANALYSIS AND MANAGEMENT SERVICES

The University of Oklahoma PH.D. 1981

University Microfilms International 300 N. Zeeb Road, Ann Arbor, MI 48106

THE UNIVERSITY OF OKLAHOMA

GRADUATE COLLEGE

FACTORS AFFECTING THE DISTRIBUTION OF PROCUREMENT AWARDS FOR EXTERNAL ANALYSIS AND MANAGEMENT SERVICES

A DISSERTATION

SUBMITTED TO THE GRADUATE FACULTY

in partial fulfillment of the requirements for the

degree of

DOCTOR OF PHILOSOPHY

BY

FRED W. BECKER, JR.

Norman, Oklahoma

1981

FACTORS AFFECTING THE DISTRIBUTION OF PROCUREMENT AWARDS

FOR EXTERNAL ANALYSIS AND MANAGEMENT SERVICES

APPROVED BY

DISSERTATION COMMITTEE

ACKNOWLEDGEMENTS

My deepest thanks are extended to those members of the faculty of the Graduate College of the University of Oklahoma who have been willing to serve as members of this dissertation committee: Dr. Ted Robinson, Dr. F. Ted Hebert, Dr. Ronald Peters, Dr. A. J. Kondonassis, and Dr. Steve Ballard. I particularly appreciate the time and constructive critiques of my two major readers, Dr. Robinson and Dr. Hebert.

I also wish to acknowledge the help and dedication of my typists, Ms. Nancy Reed and Ms. Dee Ann Sutter. Also, I would like to give my special thanks to: Ms. Laura Henderson, who allowed me access to her thoughts and the resources of Prospect Associates; the staff and board of HOPE Community Services, Inc., who have allowed their executive director to spend much time and energy to complete this project; and to the staff and officers of the Office of Procurement and Contracts, U.S. Department of Housing and Urban Development, who gave me permission to conduct this research in addition to providing me with invaluable experience as a procurement specialist in Washington, D.C.

TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENTS	iii
LIST OF TABLES	v
LIST OF ILLUSTRATIONS	ix
Chapter	
I. INTRODUCTION	1
II. RESEARCH DESIGN	52
III. NONCOMPETITIVE AWARDS	79
IV. COMPETITIVE AWARDS	121
V. CONCLUSION	188
BIBLIOGRAPHY	207
APPENDIX B: CODEBOOK	213

LIST OF TABLES

TABLE		Page
1-1:	HUD Awards Over $10,000, For Acquisitions Other Than Construction, By Type Of Effort	20
1-2:	HUD Basic Procurement Awards Over $10,000 For External Analysis And Management Services, By Organizational Type	22
A-1:	U.S. Department Of Housing And Urban Development Contract/Modification File Check List	31
2-1:	HUD Basic Awards For External Analysis And Management Services Over $10,000 To For-Profit And Not-For-Profit Organizations, By Type Of Measurement (FY 79 And The First Quarter Of FY 80)	55
2-2:	One-Way Analysis Of Variance Table, Basic Dollar Amount By Organizational Type	56
2-3:	Per Cent Of Dollar Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 To Procure External Analysis And Management Services, By Competitive And Noncompetitive Procurement Methods	67
2-4:	Per Cent Of Dollar Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 To Procure External Analysis And Management Services, By Exclusionary And Nonexclusionary Procurement Methods	69
2-5:	Per Cent Of Exclusionary And Nonexclusionary Awards Received By For-Profit And Not-For-Profit Organizations In FY 79-80 From HUD For External Analysis And Management Services, By Procurement Method	70

TABLE		Page
2-6:	Mean Dollar Amounts And Number Of Noncompetitive Contracts Awarded By HUD In FY 79 And The First Quarter Of FY 80, By Procurement Method And Organizational Type	72
2-7:	Mean Dollar Amounts And Number Of Competitive Awards Received From HUD In FY 79 And The First Quarter Of FY 80 By For-Profit And Not-For-Profit Organizations To Perform External Analysis And Management Services, By Procurement Category	72
3-1:	Number Of Modifications Awarded By HUD For External Analysis And Management Services, By Organizational Type And Time Period	85
3-2:	Mean Modification Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services, By Organizational Type And Organizational Size	89
3-3:	Per Cent Of Modification And Award Amounts Received By For-Profit And Not-For-Profit Organizations In FY 79 And The First Quarter Of FY 80	90
3-4:	Number And Mean Amounts Of Contracts Awarded By HUD On A Nonexclusionary Noncompetitive Basis For External Analysis And Management Services In FY 79 And The First Quarter Of FY 80, By Requesting Office And Award Category	100
3-5:	Ranking Of Noncompetitive Procurement Methods Used By HUD For Awarding Contracts For External Analysis And Management Services In FY 79 And The First Quarter Of FY 80, By Selected Efficiency Criteria	116
4-1:	Relationship Between The Mean Amounts Awarded By HUD Through Exclusionary Competitive Contracts To Not-For-Profit Organizations In FY 79 And The First Quarter Of FY 80	125

TABLE		Page
4-2:	Proposed Priority Ranking Of Cells To Select Contractors To Perform External Analysis And Management Services	131
4-3:	Per Cent Of Award Winners In Best-And-Final Cost Classes And Best-And-Final Technical Classes For Contracts Awarded On An Exclusionary Competitive Basis By HUD In FY 79 And The First Quarter Of FY 80 To Not-For-Profit Organizations To Perform External Analysis And Management Services	132
4-4:	Significance Levels Between The Amount Awarded And Selected Variables For All Exclusionary Competitive Contracts Awarded By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services	146
4-5:	Mean Amounts Of HUD Awards Issued As A Result Of 8(a) Competitions In FY 79 And The First Quarter Of FY 80, By Category Of External Analysis And Management Services	147
4-6:	Summary Table Of Important Variables In Explaining The Variation In The Basic Amount Awarded Through Contracts Issued In FY 79 And The First Quarter Of FY 80 To Purchase External Analysis And Management Services Through The Use Of Small Business Set-Asides	149
4-7:	Significance Levels Of Relationships Between The Technical Score And Selected Variables For All Exclusionary Competitive Contracts Awarded By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services	153
4-8:	Amounts Awarded On A Nonexclusionary Competitive Basis By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services To For-Profit And Not-For-Profit Organizations	158

TABLE		Page
4-9:	Relationships Between Amounts Awarded On A Nonexclusionary Competitive Basis By HUD For External Analysis And Management Services To For-Profit And Not-For-Profit Organizations, By Selected Variables	159
4-10:	Mean Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 Through Nonexclusionary Competitive Contracts, By Category Of External Analysis And Management Services	160
4-11:	Relationship Between Selected Variables And The Amount Awarded By HUD Through Nonexclusionary Competitive Contracts For External Analysis And Management Services To Organizations Participating In Best-And-Final Competition	162
4-12:	Per Cent Of The Number Of Nonexclusionary Competitive Procurements In Which Not-For-Profit Organizations Participated, By Inclusion On Source List	165
4-13:	Per Cent Of Organizations Judged Most Technically Proficient In Nonexclusionary Competitions For HUD Awards To Perform External Analysis And Management Services In FY 79 And FY 80, By Organizational Size	171
4-14:	Technical Proficiency As Judged By Technical Class Of All Organizations Competing On A Nonexclusionary Basis For HUD Contracts To Perform External Analysis And Management Services	174
4-15:	Selected Criteria Of Conformance To The Official Goal Of Promoting Competition, By Procurement Method	177
4-16:	Values Of The Estimated Award Amount At Critical Points In The Request Amount, By Procurement Method	181
5-1:	Percentages Of The Number Of HUD Awards Received To Perform External Analysis And Management Services, By Organizational Type And Organizational Size	198

LIST OF ILLUSTRATIONS

FIGURE		Page
1-1:	Typology Of Research Questions (In Order Of Precedence)	8
A-1:	Responsibility And/Or Authority In The Procurement Process	28
2-1:	Hypothesized Relationship Between Reserved Amounts And Proposed Amounts For Noncompetitive Procurements	62
2-2:	Relationship Between The Final Proposed Amount And Initial Reserved Amount	65
3-1:	Relationship Between The Award Amount And Requested Amount For HUD Contracts For External Analysis And Management Services, FY 79-80 (Selected Procurement Methods)	94
3-2:	Relationship Between The Amount Awarded And The Initial Amount Reserved For Exclusionary Noncompetitive Contracts Awarded By HUD For External Analysis And Management Services, FY 79 And The First Quarter Of FY 80	111
4-1:	Relationship Between The Amount Awarded And The Initial Amount Offered For HUD Exclusionary Competitive Awards To Not-For-Profit Organizations In FY 79 And The First Quarter Of FY 80 To Perform External Analysis And Management Services	128
4-2:	Relationship Between The Award Amount And Requested Amount For HUD Contracts For External Analysis And Management	141

FIGURE Page

Services In FY 79 And The First Quarter Of FY 80, By Procurement Method

4-3: Non-recursive Relationship Of Awareness, Ability, And Willingness 156

4-4: Relationship Between The Award Amount And Request Amount For Nonexclusionary Competitive Awards For External Analysis And Management Services 180

FACTORS AFFECTING THE DISTRIBUTION OF PROCUREMENT AWARDS FOR EXTERNAL ANALYSIS AND MANAGEMENT SERVICES

CHAPTER I*

INTRODUCTION

Overview

This thesis is an analysis of factors affecting the distribution of contract (i.e., procurement) awards for "external analysis and management services"--management analysis, economic analysis, policy analysis, social research, management support, and the design, operation, and evaluation of social programs. The primary interests are: 1) the distribution of awards between for-profit and not-for-profit organizations, and 2) the impact upon this distribution of policies adopted by the Congress or the bureaucracy which have the effect of reducing the ability of one organizational type vis-a-vis another to compete effectively. The analysis will utilize data from a sample of contracts awarded by the U.S. Department of Housing and Urban Development (HUD) that will indicate characteristics of the recipient organization, and to a lesser extent, utilize data from recently-instituted federal procurement information systems.

---

*All notes are located at the end of the respective chapters. Notes for Chapter I are located on page 40.

The preliminary discussion begins with a review of theoretical questions and societal issues relating to this policy area and stresses the need for a quantitative, empirical study to establish a base for further research and social action. In order to focus attention upon the broader theoretical questions and issues involved in the present trend of government at all levels to rely evermore heavily upon nongovernmental organizations and governmental bureaus at other levels of government for the provision of needed services, there will be no attempt in the first section to limit the discussion to contractual actions (vis-á-vis grants) or to any particular level of government. In the next four sections of Chapter I, it will be explained why the scope of the analysis will be limited to: a) the federal level of government, b) contract awards over $10,000 (primarily those awarded by HUD), c) contract awards for external analysis and management services, and d) the distribution of contract awards between for-profit and not-for-profit organizations. In the last section of Chapter I, the specific research question will be stated, and possibilities for utilization of the research results will be identified. The hypothesis is that federal procurement policy favors for-profit organizations in the competitive process for contractual awards to provide external analysis and management services.

In Chapter II, the analysis will begin, utilizing quantitative methods to identify factors affecting the distribution of contract awards. If, as expected, some of these factors include policies to restrict competition, it will be determined what the original intent of these policies were and whether the actual distribution pattern of contract awards achieved the expected result.

Research Orientation

Traditional areas of interest in both political science and political economy have been: 1) what the functions of government should be, and 2) the extent to which the government should perform any given duty. For example, the most basic question is whether government should be involved at all in any given activity (such as education); but once this question is resolved either in or out of the public arena, it still remains to be determined just how much the government should intervene (e.g., in public school policies) or should commit its resources to accomplish desired ends (e.g., to support educational institutions). Another theoretical question related to the first two which has recently commanded much interest in the literature in public administration is the following: If it has been determined either by the legislature or its agents what the functions of government will be and to what extent the powers and resources of government are to be exercised or committed, should bureaucracies "do the work of government," or is it both proper and advisable that "outside" organizations perform these duties?[1]

One group of authors has taken the position that only government agencies should perform the really important tasks of government, and outside organizations should only be relied upon to provide support--i.e., goods and nonessential services.[2] Among their arguments are:

- Private organizations, in particular, are too susceptible to conflicts-of-interest to keep the social good as the primary goal--especially when regulatory functions are concerned.[3]

- The utilization of outside organizations leads to a loss of accountability to--and control by--the legislature and its agents.[4]

- Reliance upon outside organizations leads to demoralization within government agencies and to a waste of "in-house" skills.[5]

- When outside organizations are involved in direct services delivery, cost criteria rather than the quality of service too often become the primary determinants for administrative decisions regarding program development and often become the primary measures of program success.[6]

Another group of authors has defended the proposition that outside organizations should perform most of the functions of government and that the bureaucracy should serve primarily in a coordinating role.[7] Among their arguments are:

- Outside organizations are more economical in performing the functions of government than the bureaucracies charged with the original mandate by the legislature--particularly when direct services to the public are involved.[8]

- Outside organizations (particularly those in the private sector) are more flexible and innovative in program development.[9]

- In the performance of program evaluation and other analyses, outside organizations can provide objectivity and different perspectives lacking from within the bureaucracy.[10]

- Outside organizations can obtain needed expertise for short time-intervals without having to be concerned with ponderous merit system regulations and bureaucratic processes.[11]

The ideological climate in this country tends to favor those who argue for more involvement by outside organizations.[12] This climate seems more pronounced at the federal level of government than at the state or local level. Donald Haider expresses the prevailing ideology well when describing the management initiatives begun by President Ford:

> What government decides on supplying itself as opposed to depending on the private sector...has a significant impact on private sector jobs and overall private sector growth....Dating from, at least, the recommendations of the Second Hoover Commission (1953-1955), federal departments and agencies have given varying degrees of

> support to the government policy of maximum reliance on the private sector [emphasis mine] to supply the government with goods and services.... To revive this standing policy since the early 1960's by OMB Circular A-76, the president asked...department and, agency heads to development a plan for increasing reliance on the private sector....[13]

Another factor which has tended to increase the involvement of outside organizations has been the political consideration that increasing the programs and responsibilities of the agencies has been politically popular, but increasing the number of government employees has been perceived by legislative bodies and executive officials as being politically unwise. Again, this tendency seems more pronounced at the federal level of government.[14] For example, federal civilian employment increased only 20 percent from the end of 1955 to the end of 1979--a rise from 2.4 to 2.9 million.[15] In the same time period, federal expenditures increased 621 percent from $68.5 billion to $493.7 billion.[16] This increase in expenditures can partially be attributed to inflation, real wage increases given to government personnel, and additional capital investment. However, the most significant factors are the growth in intergovernmental programs and increased agency responsibilities mandated by the Congress or by decision-makers within the executive branch.

As Rosenblum and McGillis observe:

> When an agency is mandated to perform certain tasks and is accountable for the successful completion of those tasks but does not have the authority to hire the necessary staff, the only resource, short of failure, may be to award contracts or grants.[17]

The interaction between these pressures is most observable at the federal level of government. Whereas expenditures on personnel compensation and benefits declined from approximately 15 percent of the federal budget in 1955 to approximately 10 percent of the federal

budget in 1979, it is estimated that expenditures through the use of contracts and grants increased slightly from approximately 39.6 percent of the federal budget in 1955 to approximately 41.8 percent in 1979.[18] In absolute terms, 1979 expenditures were $206 billion through the use of contracts and grants (increasing from $27 billion in 1955) and $47.6 billion for civilian personnel compensation and benefits.[19]

The debates over the propriety, economy, and effectiveness of utilizing outside organizations will undoubtedly continue, and different federal agencies, states, and local governments will choose different organizational "mixes" to accomplish one task vis-á-vis another; however, it is expected that due to the political perceptions of legislative members and prominent decision-makers within the respective executive branches, the tension between increased agency responsibilities and the limitation on hiring will continue to intensify. Further, legislative and executive decision-makers have made "successive limited" decisions[20]--particularly at the federal level--which have resulted in a de facto policy of relying heavily upon outside organizations. This policy is not likely to be reversed in the near future. Thus, it is expected that, in relative terms, expenditures for government agency personnel and capital requirements will decline, while expenditures for contracts and grants will increase. This tendency will be manifested at not only the federal level, but other levels of government as well.

As a result of this expected tendency, it is contended that the discussion in the literature should now be oriented not towards determining whether it is proper for outside organizations to provide any of the important functions of government, but rather, towards the following two core questions:

1) Which fucntions can best be provided by which types of outside organizations with the maximum degree of efficiency, effectiveness, and/or equity?[21]

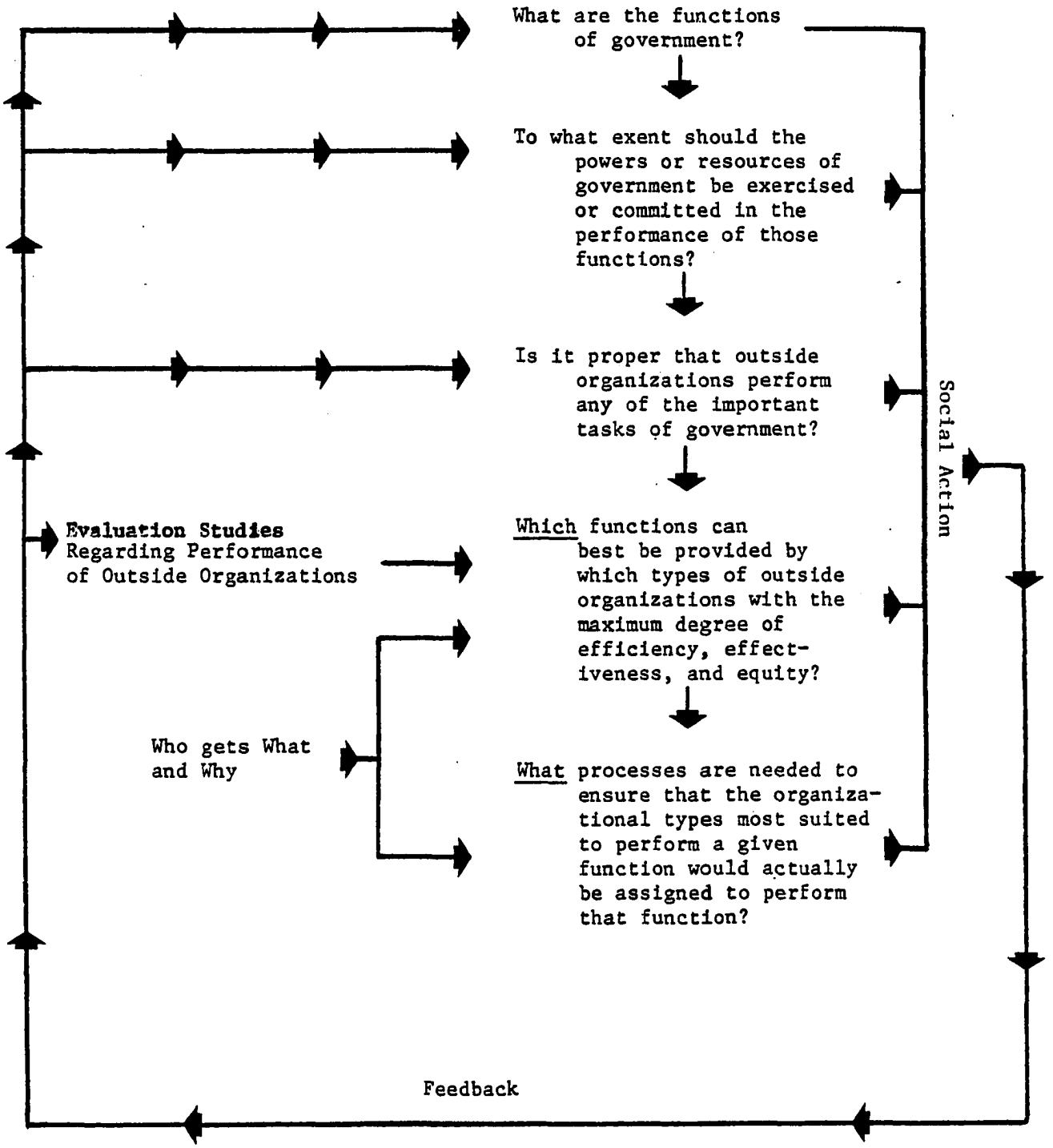
2) Assuming it is known which functions could best be provided by certain organizational types, what processes need to be instituted to ensure that the organizational types most suited to perform a given function would actually receive the contract or grant award associated with that function?

These two questions are central to the debate concerning what Sharkansky terms the "margins of government," where tasks of policy formulation, service delivery, and evaluation are performed with considerable autonomy and with the absence of conventional mechanisms of control.[22] Unfortunately, Sharkansky also notes that there is an inadequate information base to address these two questions, particularly in regard to contracts and contractors.[23]

> Crucial is an improvement in basic information. Most writing about government contracting relies on illustration selected according to no systematic scheme. There is no solid information even about the magnitude of government contracting. Academics can join policy makers in urging systematic collection of basic information about contractors and other kinds of bodies on the margins of government....At the present time, the lack of systematic attention to contracting...means that any crisis [emphasis his] that could be described is more clearly one of information and analysis than of a breakdown in the activities of policy making or administration.[24]

Sharkansky is correct in contending that present research efforts should now be directed towards understanding "who gets what and why." The theoretical linkage between these considerations and the research questions discussed earlier is indicated by the typology of research questions on the next page. The position here is that focusing the research upon the behavioral considerations will aid further research

Figure 1.1: Typology of Research Questions (In Order of Precedence)



in approaching the two core questions as well as providing a base for social action.[25]

The information and theory derived from determining "who gets what and why" could then be used in a study with a more ambitious scope to aid in identifying which functions are performed best by which types of outside organizations. For example, given that a reasonable degree of competition exists,[26] and that one type of outside organization is consistently relied upon to provide a specific service, then this might be an indication that decision-makers within the bureaucracies considered that type of organization more efficient or effective in providing the service. If further research determines that the indicator is indeed valid and that it is consistent with performance evaluation indicators, there would be a basis for the argument that this type of outside organization should continue to provide these services to the government.

On the other hand, if it is determined that one organizational type receives a disproportionate share of awards for any category of services because other organizational types are excluded from the competitive process, then the actual receipt of awards would be a poor indicator of the efficiency or effectiveness of the respective organizational types in providing that service. In that case, futher research would have to be performed to develop valid indicators.

During the preliminary stages of the research, this author was impressed not only with the poor quality of available evaluation criteria regarding the performance of outside organizations, but also with the invalid selection procedures for sampling by the Government Accounting Office (GAO). Due to both of these considerations,

the focus of the research was shifted from an analysis of performance indicators to attempting to explain "who gets what and why." But this is not to argue that performance criteria are not important. In fact, probably no significant reform will actually occur until these performance criteria are developed and linked together in some integrated system for ready access by the Congress or its agents. But whereas the aim of this research effort is to make a contribution in suggested methods for developing this integrated system, the actual development or comparison of performance indicators is outside the scope of this thesis.

Thus, the primary research orientation is to explain how much is awarded, which organizational types receive these awards, and why they tend to do so. In the course of this discussion, the linkage between these considerations and the question of what processes are needed to ensure that the organizational types most suited to perform a given function would actually be assigned to perform that function will be identified. However, this does not define the central research question. Before this question can be stated with a sufficient degree of conciseness, there needs to be some clarification of the scope of the thesis. This clarification is related to the following topics:

- the level of government (i.e., federal),
- the policy area (i.e., contracts instead of grants),
- the type of good or service (i.e., external analysis and management services), and
- the primary interest regarding distribution of awards (i.e., to not-for-profit and for-profit organizations, respectively).

Each topic forms the subject for one of the four following sections. Within each section, the limitations upon the scope of the thesis will be discussed, and it will be explained why a case study is needed. Finally, in the last section of this chapter, the research question will be stated.

The Level of Government

As discussed previously, the debate regarding the propriety, efficiency, and effectiveness of utilizing outside organizations is occuring not only at the federal level of government, but at the state and local levels as well. However, the trends regarding the increasing tension between program responsibilities, the limitations on hiring, and the resulting increase in expenditures through the use of contracts and grants are easier to identify at the federal level of government than at the state or local level. Also, the policies of the federal government regarding the maximum utilization of the private sector are more explicit and uniform than the various state policies. For these reasons alone, it appears that the first research effort should be to ascertain tendencies manifested at the federal level.

Experience has also indicated that the crux of the debate is different at the federal and state levels.[27] Congressmen do not have much control over personnel selection procedures in the federal government and have not expressed much concern over salaries in outside organizations vis-a-vis civil servants. As a result, Congressional interest is likely to be directed toward the effectiveness and total cost of utilizing outside organizations; and when there is concern expressed by Congressmen over accountability and propriety, it is that

federal agencies are losing control over public funds being paid to outside organizations and that outside organizations are not being held accountable in terms being evaluated properly regarding their performance.

At the state level, outside organizations are more likely to be offering direct services to the public, and state legislators have traditionally wielded considerable influence in the delivery of these services within their districts. State legislators appear much more nervous about the state losing control over the quality of service being offered than their federal counterparts. In addition, many legislators are not hesitant to "recommend" to the agency manager that certain individuals should be hired. There is little doubt that the influence of state legislatures is diminished when outside organizations (particularly those that are legally "private") are called upon to deliver direct services instead of government bureaus. Also, state legislators seem to be much more concerned that pay scales in outside organizations are likely to be higher than pay scales for comparable work reflected in the merit system.

As a result of these factors, there is the possibility of a considerable "backlash" at the state level which does not appear likely at the federal level. Although the trend of states to rely evermore heavily upon outside organizations to perform the functions of government seems to be becoming stronger, that trend may lose its momentum or even be reversed in many states. No such reaction is anticipated at the federal level unless there is a very fundamental change in attitude by Congressmen to allow an increase in government employment and to

reduce the scope of the federal government. Neither of these changes are likely to occur.

Thus, in order to discern tendencies that are uniform, and in order to concentrate the analysis upon trends that are not expected to be reversed in the near future, this thesis will only be concerned with the involvement of the federal government (i.e., the Government) with outside organizations. But it should be emphasized that one of the more varied and interesting topics for future research is the relationship between state and local governments and outside organizations which serve them in a contractual capacity.

The Policy Area

Contracts and grants are actually legal instruments, not award categories. The Federal Grant and Cooperative Agreement Act of 1977 (Pub. L. 95-224) distinguishes between "procurement" and "assistance" relationships and specifies when various types of legal instruments are to be used.[28] Procurement relationships are to be executed by contracts and are applicable whenever "...the principal purpose...is the acquisition, by purchase, lease or barter, of property or services for the direct benefit or use of the Federal Government."[29] Assistance relationships are to be executed by grants or cooperative agreements[30] and are applicable whenever:

> ...the principal purpose...is the transfer of money, property, services, or anything of value to the State and local government or other recipient to accomplish a public purpose of support or stimulation authorized by Federal statute, rather than [emphasis mine] acquisition, by purchase, lease or barter, of property or services for the direct benefit or use of the Federal Government....[31]

The most important types of federal assistance[32] in terms of magnitude are intergovernmental programs (i.e., "grants-in-aid),

which totaled $82.9 billion in 1979, and research and development grants, which totalled $28.9 billion in 1979.[33] This combined total of $111.8 billion exceeds that spent upon federal procurements, estimated by the Office of Management and Budget to be $94.4 billion in 1979.[34]

However, due in large part to the criticisms voiced by Senator Pryor (D-Ark.) and Representative Harris (D-Va.), the most heated debates at the federal level of government are not in regard to intergovernmental programs or research and development grants, but rather, with outside organizations performing analysis and support functions for federal agencies.[35] It is these contractors who are the principal beneficiaries of the tension between increased agency responsibilities and the limitation upon hiring. Since these services have been traditionally viewed as being of direct benefit or use of the federal government, they have primarily been acquired through the use of contracts.[36] It is for this reason that the focus of this thesis is upon procurement policy. Assistance policy will only be referenced whenever some commonalities between the two policy areas need to be stressed. In the main, however, procurement policy and assistance policy have developed independently and have their own literature.

Prior to the institution of the Federal Procurement Data System (FPDS), it was difficult to determine the magnitude of procurement awards granted by civilian agencies.[37] As will be discussed in the following sections, there are still problems relating to the design and accuracy of FPDS data, but the institution of this statistical reporting system in 1979 allows a capability to discern major procurement trends which was not previously possible. For example, the data reveals the geographical imbalance of federal procurement awards. Washington,

D.C., with less than .4 percent of the population, accounted for 1.5 percent of all awards; but Oklahoma, with 1.2 percent of the population, accounted for only .5 percent of all awards.[38]

The difficulty is that the FPDS is not designed to indicate why Washington, D.C., received a relative higher percent of procurement awards than Oklahoma. Preliminary research indicated that the FPDS data was similarly not adequate for explaining many other tendencies of primary interest in this study, e.g., why different types of outside organizations received disproportionate amounts of procurement awards (see below).

Therefore, it was decided to conduct a sample of procurement awards granted by HUD. The reason for choosing HUD was that permission was granted by HUD to examine the contract files. Because of Privacy Act requirements, the agencies are very hesitant in opening their files to outside reviewers. In fact, had this student not been a HUD employee working in the Office of Procurement and Contracts, it is doubtful that this permission would have been obtained. This poses a challenge for analyses of procurement policy which have a broader and more comparative scope.

The sample was from all procurement awards, regardless of the fiscal year, to provide a longitudinal perspective. A consolidated list of all basic procurement awards granted by HUD since its inception was obtained. Then, a census was taken of files actually available at HUD. This census revealed a disturbing practice by HUD which, according to GAO auditors, was common to most federal agencies and which creates severe problems for any evaluation study. The agencies have attempted to place historical data on computers and have either destroyed the

original files or sent them to storage (from which it is extremely time consuming and expensive to retrieve files). In the case of HUD, the validity of the data retained in the automated information system is dubious. Thus, the only source of valid longitudinal data is the contract files. But for basic awards granted prior to FY 79, the percent of files closed and sent to storage was high, probably approaching thirty percent.

There is no question that the agencies need to close out files. One contract "file" located occupied six drawers of standard metal file cabinets. Although this particular contract was an exception, it does indicate the need for agencies to store and eventually destroy information. On the other hand, this poses severe difficulties for the evaluator. Probably, summary information, such as contained in the codebook used in this study (see Appendix B located at the end of the thesis), needs to be available for the various inspection agencies and to provide a base to determine the validity of the automated information systems.

Fortunately, no such problem was encountered for contracts in which the basic award was granted by HUD in FY 79 and the first quarter of FY 80. The "closeout" process takes too long (sometimes in excess of two years) for current basic awards to be unavailable for review.

Thus, by sampling all HUD contract files not in storage, two sets of data were obtained. The first, for basic awards made prior to FY 79, has a relatively high percent of missing cases, but may be useful for lending perspective to recent tendencies. The second, for basic awards made in FY 79 and the first quarter of FY 80, has a negligible

proportion of missing cases. For that reason, most of the analysis will be limited to the current data, not that which is applicable to basic awards made prior to FY 1979.

Futher, it was decided to limit the analysis to those contracts in which the basic award exceeded $10,000. The rules and regulations governing awards of $10,000 or less are different than for awards over $10,000; therefore, it is better methodology not to combine these two fundamental award categories in the same analysis. By limiting the study to awards over $10,000, the major tendencies of interest in this thesis may be adequately ascertained while at the same time achieving significant economy in the research. Awards of $10,000 or less in FY 79 accounted for almost 98 percent of all procurement actions, but only slightly more than 10 percent of the total amount of procurement.[39]

There were 518 contracts over $10,000 on file at HUD.[40] This constituted the target population. The formula used to determine the sample size was that provided by Oliver Benson, with the following assumptions and conditions being established: 1) the population "split" was 70/30; 2) the confidence interval was established at $\pm$ 5 percent; and 3) the confidence level was established at 95 percent.[41] Based on these, the needed sample size would be 199.[42] However, due to uncertainty over the estimate of the population split, the sample size was increased to 259, one half of all available HUD contract files. The method used to select the particular contracts for examination was random sampling. Thus, the confidence level for all current files is probably in excess of 95 percent, whereas the confidence level for the subset of basic awards prior to FY 79 is probably somewhat less.[43]

Type Of Good Or Service

Services provided to the Government through utilization of contractors are sometimes referred to as "outside" services, the implication being that these services could be performed "in house" if adequate personnel was available.[44] As Elliot H. Kline and C. Gregory Buntz observe, these outside services are both professional and nonprofessional:

> Services range from the preparation of food, collection of trash, and maintenance of property to the more cerebral endeavors of management analysis, economic analysis, policy analysis, and the design, operation, and evaluation of social programs.[45]

To complicate matters, even the most "cerebral endeavors" are not procured as separate entities. That is, when a government agency awards a contract for outside services, it does so to accomplish "tasks," which are combinations of goods and services.[46] An example of one such task might be to evaluate the effectiveness of a certain program in a given city. The Government in this case is not only purchasing the professional service of an evaluator, but also a proportionate share of the cost of physical facilities and support services (e.g., clerical) the evaluator needs to accomplish the primary objective. Thus, when the Government states that it has purchased a certain amount of outside services for, say, program evaluation, the ancillary costs of physical facilities, other support services (both professional and nonprofessional), and other direct and indirect costs are included.

The focus of the criticisms of Senator Pryor, Representative Harris, and other Congressional critics has been upon those task-oriented contracts which have as their primary objective the provision of management analysis, economic analysis, policy analysis, social research,

managerial support (including the holding of conferences and providing training and automatic data processing expertise), and the design, operation (including providing technical assistance to nonfederal governments or groups), and evaluation of social programs.[47] There is no term either in common usage by the Government or in the literature which adequately describes this cluster of services. In this thesis, the term "external analysis and management services" will be used.[48] The term "consultant services" is often used by members of Congress, the popular press, and in the theoretical literature.[49] However, the concept of "consultant" has a technical meaning in contract administration which is not consistent with describing any particular type of service.[50]

This thesis will be restricted to examining external analysis and management services. A conservative estimate of the managitude of these services is that approximately $6.7 billion--or 7.8 percent--of procurement awards over $10,000 were granted for external analysis and management services in 1979.[51] Comparable data for awards under $10,000 are not available. However, if it is assumed that the same percentage of awards under $10,000 were granted for these types of services, then it may be estimated that awards for external analysis and management services approached $7.4 billion in 1979.[52] The incentive for competing for these awards is thus significant.

The proportion of HUD awards over $10,000 for external analysis and management services is much higher than for all agencies as a whole. As Table 1-1 on the following page indicates, approximately 90 percent of HUD awards over $10,000 for acquisitions other than construction were for external analysis and management services in

FY 79 and the first quarter of FY 80. Further, the proportions have remained very steady over time. The percentage of total HUD awards for external analysis and management services is lower, because most HUD awards of $10,000 or less are for goods and other services, and contracts for construction activities by HUD are substantial.

Table 1-1: HUD Awards Over $10,000, For Acquisitions Other Than Construction, By Type Of Effort

Type of Effort	Basic Award Actions	
	Prior to FY 79 (%)	FY 79 And First Quarter of FY 80 (%)
External Analysis And Management Services	90.2	89.6
Goods Or Other Services	9.8	10.4
TOTAL	100	100
N	153	106
source of data: sample of HUD contracts		

Primary Interest Regarding Distribution Of Awards

The question of the propriety of utilizing outside organizations is often associated with the role of profit in acquiring needed goods or services; i.e., whether organizations ought to be able to make a profit from performing the functions of government. In order to be able to provide an information base for future examination of this question, this analysis will be oriented primarily toward determining the dynamics of the competitive relationship between for-profit and not-for-profit organizations. For-profit organizations are those which may, according to their charter, distribute any or all of the

net income (i.e., total revenue minus total expenses) to one or more individuals. Net income which may be distributed to private individuals is "profit."[53] That portion of net income which is not so distributed is added to "retained earnings."[54] A not-for-profit organization may accumulate retained earnings, but it may not, according to its charter, either accumulate for, or distribute to, individual owners a portion of net income. Therefore, a not-for-profit organization may not, by definition, have a "profit." Rather, net income of not-for-profit organizations is commonly referred to as the "increment above cost" or the "fund balance."[55] This conception of for-profit and not-for-profit organizations appears to be consistent with the concept of "not-for-profit" suggested by Amitai Etzioni and Pamela Doty[56] and is compatible with that utilized by the federal government.[57] Therefore, as Harold Orlans has indicated, there is no conceptual difficulty in utilizing the Internal Revenue Service's judgements of what is (or is not) a for-profit or not-for-profit organization.[58] Examples of not-for-profit organizations include educational institutions and nonprofit research institutes.

Not-for-profit organizations received only 4.8 percent of all 1979 federal procurement awards over $10,000 and 4.5 percent of all 1979 federal procurement awards of $10,000 or less.[59] It is suspected, however, that the percentage of procurement awards to not-for-profit organizations for external analysis and management services is much higher. But because the Federal Procurement Data System is not designed to provide procurement data by organizational type and by product and service code, this hypothesis could not be verified.

As Table 1.2 below indicates, the sample revealed that for external analysis and management services, HUD awarded approximately 36 percent of procurement awards over $10,000 to not-for-profit organizations in all fiscal years. This suggests that those agencies, like HUD, which procure a relatively high amount of external analysis and management services instead of goods or other services are more likely to rely on not-for-profit organizations. However, the proportion of HUD awards for external analysis and management services received by not-for-profit organizations (i.e., 36 percent) is still relatively low considering that there appears to be no inherent reason why these services could not be performed equally well by either organizational type. In other words, the proportion of awards to for-profit and not-for-profit organizations for this type of service could be expected to be closer to 50 percent, respectively. Furthermore, Table 1.2 indicates that the proportion of HUD awards over $10,000 for external anlaysis and management services to not-for-profit organizations has been declining, from approximately 38 percent prior to FY 79 to 33 percent in FY 79 and the first quarter of FY 80.

Table 1-2: HUD Basic Procurement Awards Over $10,000 For External Analysis And Management Services, By Organizational Type

Organizational Type	% of Basic Awards		
	Prior To FY 79	FY 79 and the first quarter of FY 80	All Awards
For-Profit	61.6	67.4	63.9
Not-For-Profit	38.4	32.6	36.1
Total, All Organizations	100	100	100
N	138	95	233

There is no explanation in the literature that accounts for these tendencies (i.e., either the decline of or the relatively low magnitude of the proportion of HUD awards for external analysis and management services to not-for-profit organizations). Providing that explanation constitutes the primary interest of the thesis and the focus for the research. Since it is hypothesized that the tendencies are ubiquitous throughout the federal system, an analysis of HUD procurement awards for external analysis and management services may provide the basis for a more ambitious study which includes all federal agencies in the analysis.

The Research Question And Utilization

John F. Magnotti and James S. Hostetler have suggested that two types of factors should be considered when examining the competitive relationship between for-profit and not-for-profit organizations.[60] The first type are behavioral and economic factors which influence an organization's ability to compete against other organizations when there is open entry into the procurement process. The second type are "political factors," those factors which determine whether an organization is eligible to participate at all.

Within the context of this theoretical perspective and the limitations on the scope as described in the previous four sections, the two central research questions for this thesis are as follows:

1) If the decision has indeed been made that more and more of the work of Government is to be performed by organizations outside of Government, then have for-profit organizations or not-for-profit

organizations benefitted the most in the competition for HUD procurement awards for external analysis and management services--and why?

2) Have the secondary impacts of Congressional mandates or bureaucratic actions significantly altered the competitive relationship between for-profit and not-for-profit organizations; i.e., does a reasonable degree of competition still exist?

In order to examine these two questions, the research effort will include the following:

1) utilizing theory derived from political science, public administration, and economics to identify factors affecting the relative competitive advantages and disadvantages of for-profit and not-for-profit organizations in the procurement process;

2) evaluating, with the tools of quantitative policy analysis, whether these competitive advantages and disadvantages explain the distribution of HUD procurement awards for external analysis and management services or whether that distribution is better explained by the impacts of policies adopted by the Congress or the bureaucracy which have the effect of reducing the degree of competition (i.e., "political factors");

3) determining whether these political factors, if they exist, are intentional or unintentional;

4) assessing the extent to which these factors are common to other federal agencies (other than HUD); and

5) integrating the results of the research with other perspectives and/or studies in political science and public administration.

Specific, testable hypotheses will be described in the separate sections of the thesis. But the primary hypothesis is that the

Government, through the adoption of exclusionary policies, favors for-profit organizations in the competitive process for procurement awards to provide external analysis and management services. If the hypothesis holds, the conclusion might address the need for more research to devise alternatives to the present parameters upon which political factors are based. Thus, the research results might be of some use to Congressional subcommittees and/or their staffs who have expressed an interest in the appropriateness of present procurement policies. But experience has indicated that expectations of fundamental reform are somewhat unrealistic. Therefore, the research effort has been tailored to provide some direct utilization possibilities for the members of the Congress and the Office of Federal Procurement Policy who are, together, searching for methods to report more accurately how much is actually being spent for external analysis and management services and which organizations are the primary beneficiaries of that largesse. Beyond this, the goal of the research is modest, i.e., to provide an information base for future research.

A deterrent toward building a base for future research is the specialized terminology associated with the procurement process and a basic unfamiliarity by the academic community with that procurement process. As the recent article by Phillip Cooper suggests,[61] there is a growing awareness in public administration that before the important procurement policy issues can be addressed, there needs to be at least a rudimentary understanding of the procurement process.

Appendix A at the end of this chapter is designed to provide an outline of the procurement process and operating procedures which are, with slight deviations, ubiquitous throughout the federal system.

For the reader familiar with the specialized terminology and process of procurement activities or uninterested in the interrelationship between the construction of the contract file and sources of information available for research, Appendix A may be safely ignored, because the analysis does not begin until Chapter II. However, for the purposes of economy of space, definitions and terms clarified in Appendix A will not be repeated thereafter.

APPENDIX A: THE PROCUREMENT PROCESS

Introduction

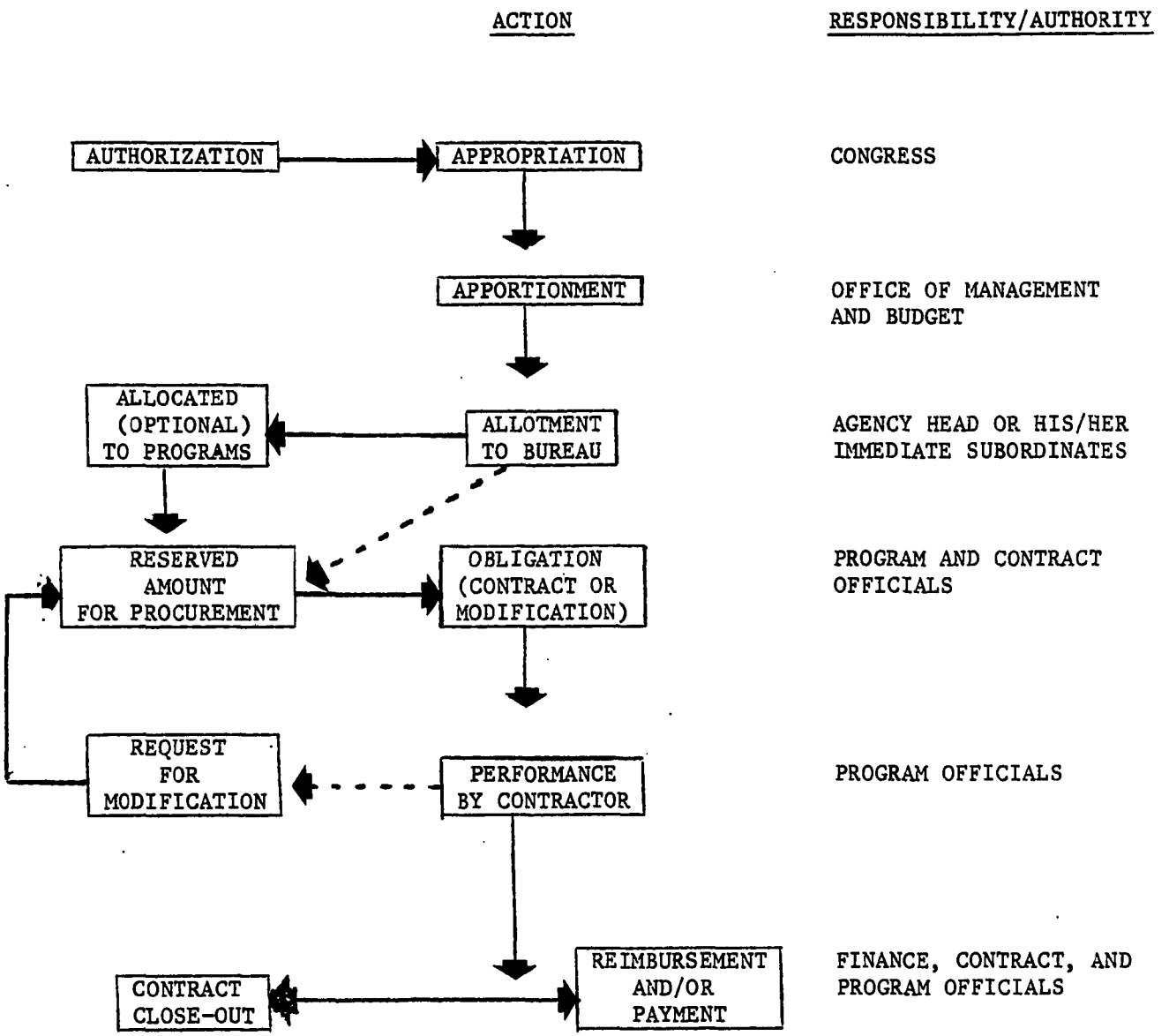
The procurement process is indistinguishable from the overall budget process until after funds have been allocated to specific program areas. As can be discerned from Figure A-1 on the next page, the procurement process begins to have a separate identity after that point.[62] Robert Lee and Ronald Johnson describe the beginning phases as follows:

> ...Expenditure decisions are divided between authorizations and appropriations. Authorizations for establishing programs, including maximum spending levels for each program, are the responsibility of the substantively oriented standing committees of each chamber....
>
> Appropriations, as distinguished from authorizations, grant the money to spend or to incur financial obligations.... The Appropriation Committees consider requests for appropriations only after substantive legislation authorizing expenditures has been approved.[63]

The "apportionment" phase is essentially controlled by the Office of Management and Budget (OMB):

> Following congressional passage of an appropriations bill and its signing by the President, agencies must submit to the Office of Management and Budget a proposed plan for apportionment. This plan indicates the funds required for operations, typically on a quarterly basis....[64]

Figure A-1: Responsibility And/Or Authority In The Procurement Process



Source: U.S. Civil Service Commission, Financial Aspects of a Federal Grant Program (Washington, D.C.: U.S. Civil Service Commission, 1972), p. 18. Modified substantially to reflect the procurement process, with particular emphasis upon HUD.

OMB can, and usually does, require that agencies revise downward their expenditure plans to bring planned spending into balance with available revenue.[65]

Once apportionments to the agencies are made, allotments are made within the agency to subunits such as bureaus and divisions.[66] Allotments are delegated budget authorities, and like apportionments, are used to control spending during the fiscal year.[67] Allotments are usually subdivided into specific budget plans and then "reserved" for particular procurements.[68] If procurements are extremely large, however, there may be no "suballotment" (i.e., allocation) to program areas.[69] The reserved amount does not obligate the Government to an expenditure of funds. Such obligations can only be incurred by legal "commitments" (i.e., instruments) such as contracts.[70] The original contract is normally termed the "basic" award, and adjustments to this basic award are normally termed "modifications."

The primary focus of the research is not upon the actors, but upon the process. The behavior of program and contract officials will be referred to only when that behavior is felt to influence the procurement process. Further, this thesis is concerned only with what occurs after allocations are received by the bureau and before the recipient of the award begins work.[71] The authorization, appropriation, and apportionment phases and the "administration" of contracts--i.e., the monitoring of cost limitations, technical progress, and reimbursement--are too far afield. In addition, not all aspects of what occurs in the reservation and obligation phases are of interest, but only those actions or decisions which have identifiable impacts upon the distribution of HUD procurement awards for external analysis and management

services to for-profit and not-forprofit organizations. Finally, modifications are of interest only after the administrative decision is made to reserve more money within the program budget for that modification.

The major source of data for this thesis are HUD contract files. Each file is designed to reflect the procurement process after funds are reserved for a particular procurement. An overview of what is contained in any contract file and the specific actions needed to execute a procurement can be discerned by referring to Table A-1 on the next page. Some of the actions are relatively simple operations, whereas others--e.g., developing an RFP or price analysis--can be very involved and difficult. Those items which are felt to provide the most relevant information for the purposes of this thesis are indicated by an asterick after the item number.

The "Request For Services" is initiated by the program office to the contracting office to begin procuring any particular good or service. For the purposes of this paper, the Request For Services contains the following relevant information:

- the nature of the service desired, including a proposed Statement of Work
- the program office making the request
- a recommendation whether the procurement is to be obtained competitively or noncompetitively
- if competitive, any restrictions upon competition (e.g., small-business set-asides)
- if noncompetitive, the organization recommended and whether the program for minority-owned firms is to be utilized
- justification for the "sole-source" (i.e., the only organization allowed to compete)
- the recommended amount for the procurement.

Table A-1: U.S. Department of Housing and Urban Development Contract/Modification File Check List[1]

CONTRACT/MODIFICATION APPROVALS/CHECKLIST		IAA/P.O./CONTRACT NO.	
		MODIFICATION NO.	
		RFP/IFB NO.	
CONTRACTOR		AMOUNT	CONTRACT TYPE
ITEM NO.	PRESOLICIATION	ITEM NO.	SOLICITATION
1*	Request for Services and	9*	IFB/RFP
2*	Fund Reservation	10	IFB/RFP Correspondence
3	Synopsis or Memorandum of Non-Synopsis	11*	Abstract
4*	Determination and Findings	12*	Technical Evaluation
	a. Negotiation	13*	Successful Proposal and
	b. Contract Type		Certifications
	c. Sole Source Justification	14	Audit/Price Analysis and Cost Proposal
5*	Source List/Sole Source	15	Other Approvals/Clearances
6	IFB/RFP Reviews		a. Contract Complicance with Form HUD 777
7	Board Appointments		b. Inspector General
8	Other Coordination		c. Waiver
	a. OGC	16*	Negotiation Memorandum
	b. Program Office	17	Review Comments
	c. Small Business Specialist	18	Letter to Unsuccessful Offerors
	d. ADP, If Applicable	19	Award Synopsis
		20	Transmittal Correspondence
		21	Distribution

[1]Source: Standard Form HUD-773 (5-76), abbreviated and modified.

*Those items which are felt to be most important for the purposes of this thesis.

The "Fund Reservation" is a formal document containing the necessary intraagency approvals, relevant accounting and financial information, and the reserved amount for that particular procurement. In some cases, an award is anticipated to more than one recipient (i.e., is a "multi-award") from one RFP; and the reserved amount will be for all anticipated awards. If only one award is anticipated, the reserved amount will only be for that one award. In either case, the Fund Reservation should be identical to the amount of the procurement requested by the program office, but in case of conflict, the Fund Reservation has been used to establish the "reserved amount."[72]

After the Request For Services and the Fund Reservation are received, the responsibility and authority in the procurement process shifts to the contracting office.[73] What occurs thereafter is not only reflected in the individual contract files, but also in the HUD procurement management information system. Although part of the coding sheets and/or data collection methods of this system can be utilized in collecting data, the data in the system is too unreliable for direct use.

The contracting office does not have to accept the recommendation of the program office regarding the method of negotiation (i.e., competitive or noncompetitive), the contract type (e.g., cost reimbursement or fixed price), or the selection of the sole-source (if it is to be a noncompetitive procurement).[74] Whether or not the contracting office agrees to these recommendations, it must explain its rationale for that decision in memorandum called "Determination and Findings." This part of the file (item 4, Table A-1) can be of aid in identifying

the negotiating authorizations and justifications used for noncompetitive awards to both for-profit and not-for-profit organizations.

Negotiating authorizations must be cited when:

- competitive methods other than formal advertising are to be used,
- a type of contract other than a fixed-price contract is anticipated, and
- the procurement is to be noncompetitive.

Negotiating authorizations reflect subsections of the appropriate U.S. Code allowing that particular procurement process. They are useful for the purposes of this thesis only to indicate the type of contract used and to verify the specific procurement method utilized.

In addition to citing an authorization for using a non-competitive method, there must be a justification for using any particular sole-source. In general, justifications are usually based upon the uniqueness (i.e., contains an original concept or idea) or availability (i.e., the substance of the proposal is not available to HUD without restriction from another source). These justifications will be discussed later in the thesis when specific procurement methods are examined.

The "source list" contains the names and addresses of organizations invited to participate in the competition. The source list does not contain organizational characteristics (e.g., whether an organization is for-profit). To gain this information, it was necessary to conduct a telephone survey to determine if a not-for-profit organization was included on the source list.

Organizations are invited to participate in the competition through the use of a "Request For Proposals" (RFP) that can be used

to identify specific limitations upon the eligibility of organizations to compete.[75] These limitations include small business set-asides and labor-surplus set-asides (i.e., restricting eligibility to organizations located in high-poverty areas). The RFP will also indicate relative factors for award and other information which may be of use in the analysis.

The "Abstract" is a compilation of organizations submitting proposals; i.e., which have competed. The Abstract will also indicate how many proposals were forwarded to the technical review panel, which proposals (if any) were not forwarded because of tardiness in submission or ineligibility, and how much was originally proposed by each organization in the competition for the award. Unfortunately, the Abstract does not indicate whether the respective organizations are for-profit or not-for-profit.

To obtain this information, the "Certifications and Representations" filed by each organization with each proposal must be examined.[76] If the procurement is noncompetitive, the Certifications and Representations will be in the file. If the procurement is competitive, however, only the winner's Certifications and Representations are on file. The proposals of nonsuccessful offerors may or may not be on file either at the contracting office or the program office.[77] The following information is contained in the Certification and Representations:

- organizational type (i.e., for-profit or not-for-profit)[78]
- small business status (if a for-profit organization), including number of employees
- certification of status as a minority-owned organization
- certification of status as a woman-owned organization.

If the organization is for-profit, is a small-business, and is minority-owned, it can be assumed--with a low probability of error--that the organization has "8(a)" status. The Small Business Administration's "8(a)" program is designed to encourage more minority participation in the procurement process. A list of organizations with 8(a) status is maintained by the Small Business Administration, but it only includes those organizations which have been approved--not those which have applied. Pending a final determination, the Small Business Administration allows those organizations which have applied to participate in the program.

The Technical Evaluation part of the file will indicate how the technical evaluation panel has evaluated the relative technical acceptability of competing proposals. In most cases, technical "scores" are assigned by use of an interval scale. Scores may change from the "initial" state of competition to after oral exams, in which the organizations which have a tenable chance to receive the award are invited to clarify their scopes of effort and to submit best-and-final offers. The number of organizations included in the initial competition is either equal to or less than the number included in best-and-final competition. The possibilities which these stages of the competitive process present for the analysis will be described later in the thesis.

If information is lacking in any of the other portions of the file, the information may be available in the "Negotiation Memorandum" which is a history of the events leading to the award and a summary of technical and cost criteria used in the award. In some cases, the Negotiation Memorandum will be preferable to the Technical Evaluation part for technical information. Further, the Negotiation

Memorandum contains sufficient cost information for the purposes of this thesis; therefore, it was not necessary to examine the price information contained elsewhere in the file.

The information contained in Table A-1 constitutes only one section of a contract file.[79] Another section contains the formal documents and is useful to establish the amount awarded by any one contract and the execution date of the document. This section will not only contain the original contract, but also modifications to that contract which may increase the contractual amount or extend the period of performance. These will also be of interest in this thesis, e.g., to assess Kline and Buntz's observation that many contractors have a tendency to bid for contracts at an unreasonably low cost in the hope that the charges for the service can be substantially increased through modifications.[80]

The prospective researcher should not be misled regarding the completeness and conciseness of file information. At HUD, too much unnecessary information is retained, and the placement of information within the file is often unsystematic. The problem in this regard is that the limitations upon hiring have resulted in a noticeable deficiency in the quantity of clerical personnel. Faced with a choice of hiring professional and support personnel, federal supervisors will almost always hire professionals. The reason is that authorizations for senior grade levels depend upon the number and content of the grade levels supervised. Hiring more support personnel instead of more professionals may result in the downgrading of one's own grade level. Thus, professionals within the contracts and grants branches of the bureaucracies are faced with severe time pressures. Not only

must they attempt to perform their own duties, but must be their own file clerks and (often) secretaries. And professionals do not make good file clerks.

Even more problematical for the potential researcher is the incompleteness of information. This student seriously misjudged the completeness of the Certifications and Representations portion of the file, for example. To gain the needed information, many outside organizations had to be contacted by telephone (the response to written communication was negligible). This was an extremely expensive and time-consuming process. Until OMB requires that this organizational data be complete, any evaluation studies based upon organizational data will suffer from missing data unless there are sufficient time and financial resources to devote to data collection.

The variable which posed the most difficult problem in the data collection phase of this research effort was the number of employees of the organization receiving the procurement award. In about half of the cases, this information was available from the Certifications and Representations portion of the file. A cross-classification system was developed in which it was possible to gain this information if it were not indicated on the Certification and Representation form. Data was gained for this cross-classification system by utilizing data from earlier or later awards, data from RFP's issued in FY 79 or FY 80 in which the employment was indicated, Standard and Poor's organizational data for for-profit organizations, or by telephoning directly those organizations for which data was not otherwise available. Because most of the information collected was current (i.e., FY 79 or the

first quarter of FY 80), reliability of the data collected in the cross-classification system is thought to be high.

In certain cases, the organizations either refused to divulge the number of employees or employment information was otherwise not made available. However, these organizations were required by HUD to indicate on the Certification and Representation sheet whether they were "large or small." Thus, preliminary computer runs were performed for those organizations reporting employment levels for previous fiscal years, and the average employment for all small and large for-profit organizations was used. Averages for educational institutions and other notfor-profit organizations were similarly calculated when employment data was unavailable for these organizations. Employment averages were used for the number of organizations as indicated below:

Organizational Size	Organizational Type	
	For-Profit	Not-For-Profit
Small	12	1
Large	2	1
All Missing Cases	14	2
Total No. of Cases (N)	149	84
Total Missing Cases as % of N	9.4%	2.4%

Organizational characteristics of those organizations which were not successful in competing for the awards were generally lacking in the Abstract. However, telephone surveys were used to determine whether both for-profit and not-for-profit organizations actually

competed for the award. Also, technical and cost information was, to the extent applicable, available. In the thesis, it will be explained why information for certain economic variables (e.g., the initial offer in a competition) was not applicable for a certain type of contract (i.e., indefinite quantity contracts).

Some variables had to be deleted from the analysis due to the lack of information, Privacy Act requirements, or lack of relevancy. For the variables retained, there is no missing data per se. The variables retained for analysis are reflected in the "codebook" in Appendix B located at the end of this thesis. And uncertainty regarding the variable value is contained in the original data sheets, and like employment, is not reflected in the coding for computer input. The error caused through misinterpretation or uncertainty is felt to be negligible.

NOTES FOR CHAPTER I

[1]One author who has adressed this topic specifically is Ira Sharkansky, "Policy Making And Service Delivery On The Margins Of Government: The Case Of Contractors," Public Administration Review, vol. 40, no. 2 (March/April, 1980), pp. 116-123. The term "outside organization" is usually reserved for a nongovernmental organization providing services to a government bureau or for a governmental bureau at one level of government (e.g., state) providing services to a government bureau at another level of government (e.g., federal). See: Subcommittee On Reports, Accounting, And Management Of The Committee On Governmental Affairs, U.S. Senate, Consultants And Contractors: A Survey Of The Government's Purchase Of Outside Services (Washington, D.C.: U.S. Government Printing Office, 1977), pp. 30 and 38.

[2]See, for example: Daniel Guttman and Barry Wilner, The Shadow Government, int. by Ralph Nader (New York: Pantheon Books, 1976), pp. 24, 25, 40, and 41.

[3]Ibid.

[4]For a discussion of this problem, see: Lloyd D. Musolf and Harold Seidman, "The Blurred Boundaries Of Public Administration," Public Administration Review, vol. 40, no. 2 (March/April, 1980), p. 126.

[5]Elliot H. Kline and C. Gregory Buntz, "On The Effective Use Of Public Sector Expertise: Or Why The Use Of Outside Consultants Often Leads To The Waste Of In-House Skills," Public Administration Review, vol. 39, no. 3 (May/June, 1979), pp. 228-229.

[6]"Mental Health Programs Viewed As Ineffective," Public Administration Times, vol. 3, no. 20, (October 15, 1980), p. 11.

[7]For the clearest enunciation of this view from a conservative viewpoint, see: John F. Magnotti, Jr. and James S. Hostetler, "The Role Of Nonprofits," (Unpublished paper), p. 110. Michael Harrington comes very close to advocating a similar position from a socialist perspective in: Michael Harrington, Socialism (New York: "Bantam Books," Saturday Review Press, 1972 c.), p. 358.

[8]Don L. Bowen and Merrill J. Collet, "When and How To Use A Consultant: Guidelines For Public Managers," Public Administration Review, vol. 38, no. 5 (September/October, 1978), pp. 476-477.

[9]Robert Rosenblum and Daniel McGillis, "Observations In The Role Of Consultants In The Public Sector," Public Administration Review vol. 39, no. 3 (May/June, 1979), p. 220. See also: Harrington, op. cit., p. 369.

[10]Bowen and Callet, op. cit., p 477. Also: Rosenblum and McGillis, op. cit., p. 221.

[11]Rosenblum and McGillis, op. cit., p. 221.

[12]See: Sharkansky, op. cit., p. 116.

[13]Donald Haider, "Presidential Management Initiatives: A Ford Legacy To Executive Management Improvement," Public Administration Review, vol. 39, no. 3 (May/June, 1979), p. 253.

[14]However, this tendency is being observed at the state level as well. For example, Oklahoma is increasing significantly funding to provide mental health services, but both the Governor and members of the legislature are making efforts to actually reduce the number of mental health state employees.

[15]Employment data for 1955 were taken from: U.S. Bureau of the Census, Statistical Abstract of the United States: 1979, 100th edition (Washington, D.C.: U.S. Government Printing Office, 1979), Schedule 460, p. 275. Employment data for 1979 were taken from: Office of Management and Budget, Special Analyses Budget of the United States Government: Fiscal Year 1981 (Washington, D.C.: U.S. Government Printing Office, 1980), p. 279.

[16]Expenditure data for 1955 were taken from: Statistical Abstract..., op. cit., Schedule 423, p. 254. Expenditure data for 1979 were taken from: Special Analyses Budget..., op. cit., p. 13.

[17]Rosenblum and McGillis, op. cit., p. 220.

[18]Salaries and benefits for 1955 totaled $10,295 million. Source: Statistical Abstract..., op. cit., Schedule 460, p. 275. Total expenditures in 1955 were $68.5 billion. Source: Statistical Abstract..., op. cit., Schedule 423, p. 254. Salaries and benefits for 1979 totaled $47.620 million. Source: Special Analyses Budget..., op. cit., p. 285. Total expenditures in 1979 were $493.7 billion. Source: Special Analyses Budget..., op. cit., p. 13. Total expenditures ($206.2 billion) through the use of contracts and grants in 1979 were estimated by adding grants-in-aid ($82,858 million), research and development grants ($28.9 billion) and expenditures through the use of contracts ($94,379 million). Source for 1979 grants-in-aid: Special

Analyses Budget..., op. cit., p. 254. Source for 1979 research and development grants: Special Analyses Budget..., op. cit., p. 335. Source for 1979 expenditures through the use of contracts: Office of Federal Procurement Policy, Office of Management and Budget, Quarterly Report of Federal Contract Awards: Fiscal Year 1979 (Washington, D.C.: Office of Federal Procurement Policy, 1980), p. 2. Total expenditures ($27.1 billion) through the use of contracts and grants in 1955 were estimated by adding grants-in-aid ($3,207 million), research and development grants ($2.2 billion), and expenditures through the use of contracts ($21,733 million). Source for 1955 grants-in-aid: Special Analyses Budget..., op. cit., p. 254. Source for 1955 research and development grants: Special Analyses Budget..., op. cit., p. 335. The amount of 1955 expenditures through the use of contracts was unavailable and had to be estimated. First, it was determined that military contracts in 1955 totaled $16,582 million. Source: U.S. Bureau of the Census, Statistical Abstract of the United States: 1960, 81st. edition (Washington, D.C.: U.S. Government Printing Office, 1961), Schedule 307, p. 240. In 1979, of the $94,379 million awarded in contracts, the Department of Defense and the Veteran's Administration accounted for $72,052 million or 76.3%. Source: Quarterly Report of Federal Contract Awards..., op. cit., p. 2. Assume the same relationship held in 1955 between contracts awarded by civilian and defense agencies. Then, $16,582 million = .763x, where x = the total amount of contracts awarded in 1955. Therefore, total contract awards in 1955 are estimated to have been approximately $21,733 million.

[19]Ibid.

[20]The term "successive limited" as used here is consistent with the meaning of Lindblom; i.e., that there was no general reliance upon some comprehensive (i.e., "rationalistic") philosophy or decision-making process which led to the policy, rather, that many policies were independently formulated with different and sometimes incompatible purposes. Lindblom uses the term "successive limited comparison" instead of "decision", but the difference is only that Lindblom is primarily concerned with the process of decision-making instead of the outcome. See: Charles E. Lindblom, "The Science Of 'Muddling Through,'" Public Administration Review, vol. 19 (Spring, 1959), pp. 79-88. Contained In: Jay M. Shafritz and Albert C. Hyde, ed., Classics Of Public Administration (Oak Park, Illinois: Moore Publishing Company, Inc., 1978), pp. 202-213.

[21]"An efficient solution maximizes the return from a given output, or, conversely, minimizes the input necessary to produce a given output." Source: James M. Buchanan and Marilyn R. Flowers, The Public Finances, 4th ed. (Homewood, Illinois: Richard D. Irwin, Inc., 1975), p. 176 f.n. "Effectiveness" is a measure of the extent to which objectives are achieved and the extent to which the results are those originally anticipated. See: Thomas R. Dye, Policy Analysis (University, Alabama: The University of Alabama Press, 1976), p. 95. As used in this thesis, efficiency and effectiveness are different concepts, and the presence of one does not necessarily imply the presence of the other. Terms such as "cost-effective" are viewed as being confused. Further,

accomplishing efficiency and/or effectiveness may not be equitable. "Equity," as used in this thesis, is justice, i.e., granting the "equality" that unequals deserve. Source: Plato, The Laws, translated with an introduction by Trevor J. Saunders (Baltimore, Md.: Penguin Books, 1972), p. 230.

[22]Sharkansky, op. cit., p. 116.

[23]There is much confusion in the literature regarding the use of the term "contractor", or alternatively, "consultants." A "consultant" is a person who serves as an advisor to one or more agency staff and/or renders advice to a requesting agency office; whereas a "contractor" is a firm or organization with which legally binding contracts are written and which furnishes a service. In the normal case, those offering goods are not referred to as contractors, but as "suppliers" or "vendors." See: Consultants and Contractors...,op. cit., pp. 30 and 37. Consultant services can be acquired by contract or by hiring the individual on a temporary basis. If hired on a temporary basis, acquiring the services of that individual is a personnel action; and this topic is outside the scope of this study. If the services are procured by contract, the individual is viewed by the Government as a contractor; i.e., an organization of one. If the consultant bids for a contract to provide services to the Government, he/she does so as an organization--not as an individual. Therefore, as used in this thesis, direct beneficiaries of contract awards will be referred to as contractors. These contractors may, in turn, hire consultants (individuals) or subcontractors (organizations) to fulfill conditions of their contracts.

[24]Sharkansky, op. cit., pp. 122-123.

[25]Coleman contends that policy research has as its philosophic base a guide to action: "...the goal is not to further develop theory about an area of activity but to provide an information basis for social action." See: James S. Coleman, Policy Research In The Social Sciences (Morristown, N.J.: General Learning Press, 1972), p. 2. This thesis has been designed to provide a direct information base for modest reforms in the federal reporting system as well as providing an information base for more ambitious studies which, in turn, might have as their purpose more comprehensive reform in the acquisition of services by the federal government (see below).

[26]Fully competitive conditions require the following:

- There must be a large number of both suppliers and buyers so that neither buyer nor seller can control the market.
- The goods or services must be identical, or nearly so (i.e., must be "homogeneous").
- There must be complete and accurate knowledge and awareness of the conditions of supply and demand.
- There must be relative ease of entry into and out of the market.

• The pricing and buying policies of both the supplier and the buyer must reflect only efficiency criteria and not those of equity.

"Fully competitive" is less restrictive than the concept of "perfect competition" used by the economists. A "reasonable degree of competition" is herein used to describe a competitive situation which is less than fully competitive. E.g., in competing for government awards, there is often only one "buyer" (i.e., the Government), but there may be intense competition by potential contractors to provide the service.

[27]The student has had experience in Washington, D.C. as a contract specialist for the U.S. Department of Housing and Urban Development. Also, he is currently serving as executive director of an outside organization providing direct mental health services funded through contract by the Oklahoma Department of Mental Health.

[28]In addition to specifying the Federal purposes for entering into procurement and assistance activities and to specifying when agencies are to use contracts, grants, or cooperative agreements, the Act also required that the Office of Management and Budget conduct a study of Federal assistance activities. Source: U.S. Office of Management and Budget (OMB), "D. Evaluation of Pub. L. 95-224," Managing Federal Assistance In The 1980's (Washington, D.C.: Office of Management and Budget, 1979), pp. 1-2. For a summary of the issues addressed in the OMB study see: OMB, "Study Overview," Managing Federal Assistance In The 1980's, op. cit., pp. SO-7, SO-8, and SO-9.

[29]Federal Grant and Cooperative Agreement Act of 1977, Sec. 4(1), 41 USC 503 (1978).

[30]Grants are to be used whenever no substantial involvement is anticipated between the executive agency (acting for the Government) and the recipient, whereas cooperative agreements are to be used whenever substantial involvement is anticipated. See: Federal Grant and Cooperative Agreement Act of 1977, Sec. 5(2), 41 USC 504 and Sec. 6(2), 41 USC 505 (1978).

[31]Federal Grant and Cooperative Agreement Act of 1977, Sec. 5(1), 41 USC 504 and Sec. 6(1), 41 USC 505 (1978).

[32]"Assistance" in this paper does not include transfer payments (e.g., Social Security benefits). Only those expenditures executed by a grant or cooperative agreement are included.

[33]Special Analyses Budget..., op. cit., pp. 254 and 335.

[34]Quarterly Report Of Fedral Contract Awards..., op. cit., p. 2.

[35]Martha M. Hamilton, "Increase In Federal Contracting Generates Troubling Questions," The Washington Post (Sunday, February 24, 1980), pp. G1 and G4.

[36]This view may change in the future for particular types of services, e.g., "technical assistance." In the future, these services may be acquired by cooperative agreements (assistance instruments).

[37]The Federal Procurement Data System has been instituted by the Federal Procurement Data Center, the "executive agent" for the Office of Federal Procurement Policy, Office of Management and Budget. Publications include: (1) FPDS Quarterly Report Of Federal Acquisition Awards; (2) Special Analysis 1: Federal Acquisition Awards Over $10,000 --By Type Of Contractor; (3) Special Analysis 2: Federal Acquisition Awards Over $10,000--By Product And Service; and (4) Federal Acquisition Awards--Minority And Disadvantaged Business Enterprise Participation. These reports are published quarterly. Copies may be obtained by writing: Federal Procurement Data Center, Office of Federal Procurement Policy, Office of Management and Budget, Washington, D.C. Until the establishment of the FPDS, departments and agencies of the executive branch were not uniformly reporting their procurements to a central point which could produce data on all or any part of executive branch procurements. Source: Special Analysis 2..., op. cit., Third Quarter Fiscal Year 1979, p. iii.

[38]Estimates of the population for 1980 were taken from the 1974 population projections, Series I-E. The estimate for D.C. was derived by subtracting the individual state totals from the "S.A." (i.e., South Atlantic) total. See: Ben J. Wattenburg, ed., The U.S. Fact Book, the commercial edition of the Statistical Abstract Of The U.S.: 1975, 96th edition, (New York: Grosset and Dunlap, 1976), Schedule 14, p. 16. The percentages of procurement awards for each geographical locality were taken from: Quarterly Report Of Federal Contract Awards..., op. cit., pp. 8-9.

[39]Quarterly Report Of Federal Contract Awards..., op. cit., p. 2.

[40]The preliminary census revealed 533 files. Later research revealed that:

4 awarded prior to FY 79 had since been closed out and sent to storage

2 FY 79 awards had been transferred to the regions

7 FY 80 awards had not been executed by March 31, 1980

2 FY 79 awards were for less than $10,000

15 total unavailable or outside the scope of the study

These 15 files were then deleted from the population list. Thus, the total population was considered to be 518.

[41]Oliver Benson's suggested method for determining sample sizes, given confidence levels, confidence intervals, and selected dichotomized proportions in an infinite population, is as follows:

> ...Sample sizes are calculated by the normal approximation formula, $n=(z/e)^2pq$, in which n = sample size..., z = the normal deviate..., e = the error tolerance or half the confidence interval, and pq = the product of the two proportions.... The accuracy of the normal approximation is good for sample sizes of 1,000 or more, fairly good for sizes of 100, and inadequate for samples of 50 or less.

Source: Oliver Benson, "Political Science Laboratory: Statistical Supplement," (Norman, Oklahoma: University of Oklahoma, 1977), p. 25. The "Supplement" is an addendum to his: Political Science Laboratory (Columbus, Ohio: Charles E. Merrill Publishing Company, 1969 c.).

He defines the terms n, z, e, p, and q in the following statement:

> ...Size (n) varies inversely with the magnitude of the confidence interval [emphasis his] (± e, for error)--the distance between the upper and lower confidence limits within which it is estimated the true population percentage lies. Size varies directly with confidence level [emphasis his] (z), defined as, e.g., the 99% level for z of 2.58, the 95% level for z of 1.96, z being the normal deviate. It also varies directly with the magnitude of the product of the true population percentage split (pq with p the decimal proportion of those having a dichotomous trait, and q = 1 - p).

Source: Benson, op. cit., p. 23.

Benson also states that the adjusted size (n^1) for finite population (N) is: $n^1 = n - (1 = n/N)$.

The population split was based upon a preliminary sample of 20 HUD contract files. The "split" used was the proportion between the contract awards to for-profit and not-for-profit organizations, respectively. This is the primary control variable in the analysis (see below).

[42]
$$n = (z/e)^2\ pq$$
$$n = (1.96/.05)^2\ (.70)\ (.30)$$
$$n = (1536.64)\ (.21)$$
$$n = 322.6944 = 323$$

and where N = 518

$$n^1 = 323 - (1 + 323/518)$$
$$= 323 - (1 + .62)$$
$$= 199.38 = 199$$

[43]Based upon the actual split of 65/35 verified by the sample only 209 files needed to be examined for an overall confidence interval of 95 percent:

$$n = (z/e)^2 pq$$
$$= (1.96/.05)^2 (.65) (.35)$$
and since
$$(.65) (.35) = .2275 = .228$$
and
$$(1.96/.05)^2 = 1536.64$$
then
$$n = 1536.64 (.228) = 350.354$$
but
$$n^1 = n - (1 + n/N)$$
thus
$$n^1 = 350.354 - (1 + 350.354/518)$$
$$= 350.354 - 1.676$$
$$= 209.042 = 209$$

[44]Kline and Buntz, op. cit., p. 229. See also: Consultants And Contractors: A Survey Of The Government's Purchases Of Outside Services, op. cit., pp. 30-37.

[45]Kline and Buntz, op. cit., p. 227.

[46]For an illustration of a "task," see: Raymond C. Dosky, ed., DOD Cost And Price Analysis, rev. ed. (Columbus, Ohio: The Ohio State University Research Foundation, c. 1978), pp. 8-16.

[47]The majority of this list has been taken from Kline and Buntz, op. cit., p. 227.

[48]Professor Ronald Peters of the University of Oklahoma suggested the term "external analysis" services. The term has been slightly modified--i.e., "external analysis and management services"--to reflect the operational and managerial components of the concept.

[49]Rosenblum and McGillis, for example, use the term "consultant services" to describe a similar set of services addressed here. See: Rosenblum and McGillis, op. cit., p. 219.

[50]See Footnote 23.

[51]The estimate was derived by adding the following Federal Procurement Data System (FPDS) categories: "Research and Development," categories AB, AE, AF, AK, AL, AM, and AQ; and "Other Services And Construction," categories G, Q, R, and U. Source: Office of Federal Procurement Policy, Office of Management And Budget, Special Analysis 2: Federal Contract Awards Over $10,000 By Product And Service (Washington, D.C.: Office of Federal Procurement Policy, 1980), pp. 10, 15 and 25.

[52]Derived by multiplying .078 times total procurement awards in 1979 of $94.4 billion. Source for total procurement awards: Quarterly Report Of Federal Contract Awards..., op. cit., p. 2.

[53]In economics, "profit" is identical to net income; i.e., the difference between total revenues and total expenses. See, for example: Paul Samuelson, Economics, 8th ed. (New York: McGraw-Hill Book Company, 1970), pp. 593-594. But just because net income results from operations does not mean that the organization necessarily may distribute that net income to private owners. For example, state-owned liquor stores have net income which is returned to the state, not to private shareholders or owners. As herein understood, these are not "for-profit organizations."

[54]Retained earnings are, in fact, cumulative increments of undistributed net income. See: Carl L. Moore and Robert K. Jaedicke, Managerial Accounting, 2nd ed. (Dallas, Texas: South-Western Publishing Company, 1967), p. 55. As used here, these increments may be undistributed profits (in the case of for-profit organizations) or just net income (in the case of not-for-profit organizations).

[55]For example, Federal Management Circular 74-4 states: "No provision for profit or other increment above cost [emphasis mine] is intended." General Accounting Office, "FMC 74-4: Cost Principles Applicable To Grants And Contracts With State And Local Governments" (Washington, D.C.: General Accounting Office, 1974), Attachment A, p. 1.

[56]Amitai Etzioni and Pamela Doty, The Profit In Not-For-Profit Institutions (New York: Center For Policy Research, 1976).

[57]See: Internal Revenue Code 501(c)(3) and S.F. 990, the tax return form for not-for-profit organizations.

[58]Orlans refers to a nonprofit organization as one so "... classified by the IRS." See: Harold Orlans, The Nonprofit Research Institute (New York: McGraw-Hill Book Company, 1972), f.n. no. 1, p. 181. The IRS rulings are used by the other federal agencies in restricting eligibility for certain types of awards.

[59]The amount of procurement awards over $10,000 is being measured by the number of contract actions. Source: Office of Federal Procurement Policy, Office Of Management And Budget, Special Analysis 1: Federal Contract Awards Over $10,000 By Type Of Contractor - Fiscal Year 1979, p. 3. For the percentage of awards of $10,000 or less, the relative amount of procurement awards received by not-for-profit organizations is being estimated by the relative percentage of award amounts (the number of award actions is not available). The total amount of awards of $10,000 or less was found by adding the amount of awards of $10,000 or less to business concerns, for directed acquisitions for foreign governments, for tariff or regulated activities, for acquisitions outside the U.S. and its possessions, and to educational and nonprofit institutions. See: Special Analysis 1..., op. cit., pp. 6, 10, 15, 19, and 23.

[60]The following discussion corresponds closely to: Magnotti and Hosteler, op. cit., pp. 114-116. Magnotti and Hostetler use the term "external factors" instead of "political factors" (see below). They do not explicitly state a term corresponding to behavioral and economic factors (see below).

[61]Phillip J. Cooper," Government Contracts In Public Administration: The Role And Environment Of The Contracting Officer," Public Administration Review, vol. 40, no. 5 (September/October 1980), pp. 459-468.

[62]The budget process depicted in Figure A-1 or described below does not reflect the influence of the Congressional Budget and Impoundment Control Act of 1974; e.g., the role of the budget committees or the Congressional Budget Office. For an explanation of the requirements of this Act, see: James J. Finley, "The 1974 Congressional Initiative In Budget Making," Public Administration Review (May/June, 1975), pp. 270-278. Since the purpose is only to illustrate the meaning of terms basic to the analysis, a discussion of the complexities of the budget process are outside the scope of this paper. The complex nature of the budget process can be discerned from Lee and Johnson's statement that: "In practice, some substantive legislation leaves the Appropriation Committees with little discretion on spending matters and sometimes bypasses the appropriations process altogether." Source: Robert D. Lee Jr. and Ronald W. Johnson, Public Budgeting Systems (Baltimore: University Park Press, 1975), p. 204. For example, some substantive committee legislation directly authorizes agencies to incur obligations without approval of the appropriations committees. One of the most prevalent forms of this "backdoor financing" is to allow agencies to enter into contracts in advance of appropriations. See: Lee and Johnson, op. cit., pp. 207-210.

[63]Lee and Johnson, op. cit., p. 204.

[64]Ibid, p. 92.

[65]Ibid. Further, OMB can "freeze" funds throughout the year for specific programs. Some procurement programs of HUD were frozen by OMB mandate in January of 1980, for example.

[66]Ibid, p. 93.

[67]Ibid.

[68]U.S. Civil Service Commission, Financial Aspects Of A Federal Grant Program (Washington, D.C.: U.S. Civil Service Commission, 1972), p. 9.

[69]Note: Terminology differs among agencies regarding the subdivisions of apportionments to bureaus, program areas, or specific procurements. See: U.S. Civil Service Commission, Financial Aspects Of A Federal Grant Program, op. cit., p. 9. In this paper the "reserved amount" will be used to describe funds initially set aside by an agency for a particular procurement before the award is actually made.

[70]41 CFR 1-1.208.

[71]Thus, those unusual cases where allocation to the bureau does not occur, and where reservations are forthcoming directly from the Office of the Secretary, are not being considered.

[72]There are some cases when the program office recommends a certain amount for a procurement effort, but only has funds available for part of that amount. The other portion is usually anticipated to be made available within a short time period from other agencies. Transfers of funds between agencies are usually executed by means of "interagency agreements." These agreements are not contracts, however. For there to be an actual obligation, the agency receiving the funds must reserve those funds for a particular procurement or assistance instrument. In some cases, the interagency agreements are not executed; the Statement of Work is reduced (regarding scope of effort); and the obligation is incurred only for the original funds which were available. The reserved amount, therefore, is less than the original requested by the program office. This is an unusual occurrence, however. Thus, the reserved amount in the Fund Reservation can be considered as identical to the original requested from the program office.

[73]More specifically, the Contracting Officer. See: 41 CFR 1-1.402.

[74]The contracting office also has authority to determine whether an assistance or procurement instrument is more appropriate. This issue will be addressed later in the paper. Also, it should be noted that only the Contracting Officer can finalize negotiations regarding the estimated price to be charged for a service.

[75]In Table A-1, there is reference to "IFB," which means "Invitation-For-Bid." It is a type of solicitation which is used for very specific goods or services. The IFB is not normally used for external analysis and management services.

[76]The terminology for this document may differ among agencies, but the information required is, with minor alternations, the same. In addition to the information required as described below, there are Privacy Act requirements, statement of affirmative action plans, etc.

[77]The proposals of unsuccessful offerors are retained for two months after the date of award by the Office of Procurement and Contracts.

[78]The actual categories are: individual, partnership, corporation, nonprofit organization or educational institution. The first three categories are for-profit organizations, whereas the latter two are not-for-profit.

[79]Other sections include: supplemental records for contract modifications, correspondence, progress reports, payment records and balance sheets, and the section containing signed copies of the instrument (e.g., the original contract and modifications thereto).

[80]Kline and Buntz, op. cit., p. 227.

CHAPTER II*

RESEARCH DESIGN

Introduction

An analysis of the procurement process has in common with all other evaluative efforts the need to identify goals. Weiss contends that an examination of goals must address two issues: 1) the identification of the goals that the evaluation will use as the basis for criteria, and 2) the establishment of standards for choosing between competing goals.[1] Program goals are the stated and unstated motivators for undertaking (or maintaining) a project and are to be differentiated from "official" goals, i.e., those purposes which have been formulated by policy makers.[2] The situation of competing goals usually arises when program goals and official goals differ. As Weiss states:

> Programs not only move toward official goals. They accomplish other things, sometimes in addition and sometimes instead. The evaluator has a responsibility to take a look at these unexpected consequences of program activities.[3]

Comparing the two types of goals may be difficult. Program goals are often "hazy," and official goals may only be a "long list of

---

*All notes are located at the end of the respective chapters. Notes for Chapter II are located on page 77.

pious and partly incompatible platitudes."[4] To complicate matters, even "hazy" program goals or official "platitudes" may not even be stated. It becomes important, says Weiss, to search "...for the hidden agenda, the covert goals of the project that are unlikely to be articulated, but whose achievement sometimes determines success or failure no matter what else happens."[5] In regard to procurement evaluation, both the agency and the receipient are likely to have covert goals; and this must be taken into account in any model of the evaluation process.

It is not that program officials do not wish to accomplish official goals. In fact, they are most anxious to achieve official goals of <u>their</u> programs. Lack of adherence by an agency to official goals may result in criticism from the Congress; thus, program officials are under considerable pressure from the assistant secretaries to achieve official goals. But official goals of <u>other</u> programs often become important only insofar as they "...help maintain the viability of the program (for which the official is responsible) in its environment."[6] Thus, program decisions regarding the procurement method or the organization actually supplying the service are made in view of the effects upon that particular office's own programs. No matter how much the program official may agree with the other official program goals, if he/she feels that incorporating these goals into the calculus for securing services perceived as vital to <u>his/her</u> program will potentially delay or harm that program, then that program official will use all available means to <u>not</u> incorporate those other goals--and vice-versa. This ethic of pragmatic behavior is ubiquitous and is assumed, in the following discussion, to be present.

The motivation by program officials to accomplish official and program goals results in administrative policy decisions which predetermine, in the normal case, the basis upon which awards are to be made. The most important decisions are thought to be: 1) the amount to be awarded; 2) whether to procure a service competitively or noncompetitively; 3) if noncompetitive, what sole source is to be selected; and 4) whether exclusionary or nonexclusionary procurement methods are to be utilized to acquire the needed services.

The hypothesis is that any disproportionate distribution of awards which occurs between the respective organizational types can be largely explained by the influence of these administrative policy decisions. The following sections in this chapter will clarify the principal dependent variable used in the analysis and establish a framework for analysis which will be used to assess the consequences of these decisions.

Magnitude of Awards

The magnitude of procurement awards may be measured either by the relative number of contracts or in terms of current dollars. As the following table indicates, the respective measures will result in somewhat different results. However, the value of phi is only .15; and a low value of phi indicates that the results derived by the two methods are much alike.[7]

Choice of the appropriate measure depends upon the purpose of the research effort. Describing awards in terms of the number of contracts is more useful when longitudinal trends are being studied. The reason is that dollar amounts may be misleading due to the effects of

inflation. This danger is most present when dollar amounts are not stated in terms of constant dollars. However, simply applying the index used for the effects of inflation in consumer goods to Government purchases also may not be valid, because it is not known whether Government purchases are subject to inflationary pressures at the same rate as consumer goods. Thus, lacking a valid constant price index for external analysis and management services, the number of awards are used in this thesis to describe magnitude longitudinally. For example, the number of awards were used earlier to describe the relative decline in the proportion of HUD procurement awards over $10,000 for external analysis and management services to not-for-profit organizations from 38 percent prior to FY 79 to 33 percent in FY 79 and the first quarter of FY 80.

Table 2-1: HUD Basic Awards For External Analysis And Management Services Over $10,000 To For-Profit And Not-For Profit Organizations, By Type Of Measurement (FY 79 And The First Quarter Of FY 80)

Organizational Type	Type of Measurement	
	Percent of Award Amounts	Percent of Award Actions
For-Profit	80	67
Not-For-Profit	20	33
All Organizational Types	100	100
$\emptyset$ = .15		

When the interest is upon current tendencies, it is more appropriate to use dollar amounts when describing the magnitude of procurements. The dollar amount of the award can be compared with other interval scales (e.g., additional amounts added to the basic contract through

modifications) with more meaning than can the number of awards. Therefore, unless stated otherwise, the dollar amount awarded will be used to describe the magnitude of procurement activity and will be the dependent variable in the analysis. However, in order to explain why one organizational type receives more dollar amount of awards, the distributional pattern reflected in the number of awards may be useful to explain that pattern. But for most of the analysis, the dependent variable will be the award amount, because the major interest is to determine why for-profit organizations received 80 per cent of the amount awarded by HUD to procure external analysis and management services in FY 79 and the first quarter of FY 80.

Variables other than organizational type must be examined to explain the difference between the amount awarded by HUD to for-profit and not-for-profit organizations. As indicated in Table 2-2 below, the relationship between amount awarded by HUD to perform external analysis and management services and organizational type is not significant at the .05 level.

Table 2-2: One-Way Analysis Of Variance Table, Basic Dollar Amount By Organizational Type

Source of Variation	Degrees of Freedom	F Ratio	p
Between Groups	1	.893	.3471
Within Groups	93		

In the following sections of this chapter, a research design will be

formulated to differentiate award amounts according to the procurement method utilized. By then examining the amount of awards received by the respective organizational types through each of the procurement methods, the variance in the amount awarded to the respective organizational types can perhaps be explained.

Relative Importance of Competition

An official goal of the Congress is to promote "efficiency" by:[8]

> ...Establishing policies, procedures, and practices which will require the Government to acquire property and services of the requisite quality and within the time needed at the lowest possible cost, utilizing competitive procurement methods to the maximum extent practicable...[9]

The rationale behind this policy is that for most goods or services, supply costs can be estimated by both the potential recipient (i.e., the supplier) and the Government (as only one buyer in a larger market); and the most "fair and reasonable" method of securing these goods and services is for the Government to rely upon the competitive market place for their provision.[10] Even if one of the parties (in most cases, the Government) cannot accurately make this determination of costs, it may rely upon the competitive range established in the market place. Given a fully competitive situation (or a close approximation thereto), the market price will reflect at any time the least-cost alternative to the Government.[11]

But to determine a valid competitive range, the good or service must be able to be described in terms of the factors of production needed to produce those goods or services--e.g., direct labor or materials and indirect costs such as interest and travel. For external analysis and

management services, the lack of clarity with which tasks are defined by government agencies is a very difficult problem.[12] The quantity of service required may be uncertain; and even if the quantity of services required are known, it is not often clear as to what factors of production are needed to produce them. Since traditional economics has been built upon the assumptions that quantity and price are determinate, these models are not much aid in ascertaining whether competition actually does result in the least-cost alternative; and it seems more advisable to approach the analysis from an "institutional" perspective.[13]

The plan for establishing a framework for analysis is based upon the following tendencies in the decision-making structure of HUD: first, the need for the service is justified within the bureaucracy, and an amount is reserved for this service(s); then, it is decided whether the procurement is to be negotiated competitively or noncompetitively. The elements of a competitive process include: 1) clearly stated objectives for the service(s); 2) a procedure detailing how selections are made and on what basis; 3) the plan for processing and clearing offers (or requests-for-proposals); and 4) providing any additional information which may be useful to <u>all</u> offerors about the proposed contract, while at the same time dispelling any fear that one or more organizations have information about the contract which is not available to other organizations.[14] A noncompetitive process lacks all or most of these essential elements.

Given no opposition from the program official's superiors or the contracts office, the program official will normally choose the "least-time" and/or "least-effort" alternative of awarding the contract.

But because of the official goal to promote competition, program officers are not always given this option. The bureaucrats are afraid that too high a percentage of noncompetitive procurements would be interpreted as a challenge to the Congress regarding the official policy to promote efficiency through competition.

The "least-time" basis of procuring a service is that method which causes the fewest time delays between the date of request and the date of award. The "least-effort" basis of procuring a service is that method which causes the least expenditure of time and effort by one's own staff. Even though time is an element of both, the two concepts are distinct. For example, selecting one action over another may result in less total time from the conceptualization, but in far more time and effort spent by the supervisor and his/her own staff. This choice must often be made by program officials. For grants, the choice is often between requesting assistance from the contracting office--and thus expecting more time-delays--and expending much more time by program staff. At least within HUD, however, this option is not available for procurements for external analysis and management services, because these types of services must be procured by the contracting office.

Prior to the Request For Service, there does not appear to be a significant amount of difference in the effort or time needed by program officials to gain approval for noncompetitive and competitive procurements. For noncompetitive procurements, the most time and effort is spent evaluating or selecting unsolicited proposals and then promoting the idea to decision-makers within the bureaucracy. When unsolicited proposals cannot be relied upon, more effort must be spent upon gaining

needed information to be able to promote the idea. It is assumed that there is no significant time differential involved in these two respective processes.

After the Request For Services is forwarded to the contracting office, the effort required of the program office is essentially dependent upon the method of procurement. For noncompetitive procurements, the requirements are minimal, primarily limited to coordination functions. For competitive procurements, demands upon the program office are extensive, particularly in the period between which proposals are received and a final selection is made. Technical review panels must be developed and coordinated, proposals must be evaluated, and detailed justifications for selecting one or more winners must be forwarded. The complexity and effort needed increase almost in direct proportion to the number of proposals received. The point here is that noncompetitive procurements do present the least-effort alternative for both the program and contracting offices.

But the important factor is least-time. One-way analysis of variance indicates that there is a significant difference (at the .0005 level) in the time needed to execute competitive and noncompetitive procurements. Whereas the mean time needed to execute a noncompetitive procurement is approximately 112 days, the mean time for competitive procurements is approximately 164 days. Thus, the average cost of awarding a contract competitively for external analysis and management services is much higher for HUD than in awarding the contract noncompetitively.

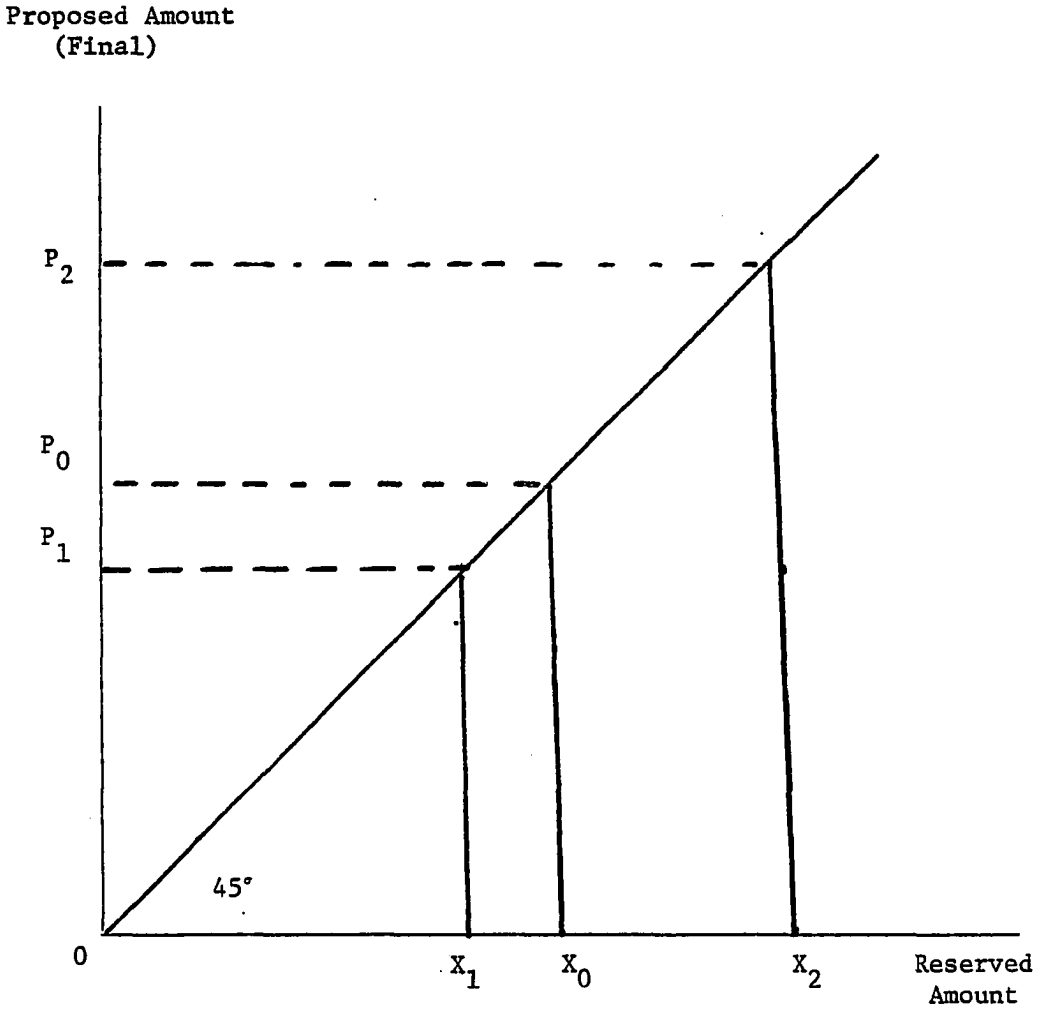
The argument is often heard that these higher average time and

effort costs of awarding the contract are more than offset by the savings received by the Government in procuring a service competitively, because more competitors will result in a lower offer to perform the service.[15] The argument serves to buttress the rationale underlying the official goal of the Congress to promote "efficiency" through competition and has been adequately defended for goods or services which are defined in terms of identifiable quantities.[16] But the theory does not apply to external analysis and management services (because of indefinite quantity), and this can have an impact upon the design for ascertaining those factors which significantly affect the distribution of HUD procurement awards for external analysis and management services between for-profit and not-for-profit organizations. In order to devise a viable research design to determine whether competitive awards actually result, overall, in more savings to the Government, noncompetitive procurements will be examined first.

When noncompetitive procurements are involved, the least-cost alternative prior to the negotiating stage is identical to the proposed amount by the sole-source. The reserved amount for that procurement is always a discrete amount instead of a range. The contracting office, once it receives a request from the program office, then contacts the contractor and attempts to negotiate cost items to obtain a fair and reasonable price for the Government. Normally, there are only marginal adjustments from the original amount proposed by the contractor when actually awarding the amount of the contract.

When the proposed amount is less than the reserved amount, the proposed amount can be depicted as in P_1 in Figure 2-1 on the next page.

Figure 2-1: Hypothesized Relationship Between Reserved Amounts And Proposed Amounts For Noncompetitive Procurements



If the proposed amount were equal to the initial reserved amount (i.e., X_0), the proposed amount would be P_0. Thus, even before negotiations, there is a potential "savings" (P_0-P_1) to the Government caused by uncertainty. The saving occurs because the Government is usually willing to pay up to the reserved amount. Whenever the contracting office is not willing to pay this reserved amount, whenever the contractor is adamant in demanding it, and whenever no procurement results, much ill-will is created between the program office and the contracting office. This type of situation is usually avoided. When an award is actually made, the reserved amount is normally "dereserved" to that point where the reserved amount equals the award amount (i.e., X_1 in Figure 2-1).

Savings to the Government normally occur only when the initial reserved amount is not known by the contractor. When the reserved amount is known by the contractor, the tendency is to bid closer to P_0. The contractor will not usually be denied the award, because the program official is not being confronted with a loss of needed time or effort. And since there are no competitors, the contractor does not face the prospect of being underbid.

In some cases, the final proposed amount (i.e., the award amount) is larger than the initial reserved amount (e.g., P_2 in Figure 2-1). Before the actual award for the greater amount can be approved, the program office must reserve additional funds (i.e., X_2). This occurs primarily when the program office has underestimated costs or when the contractor is willing to gamble that the time-and-effort required by program officials to select another contractor is less than the time-and-effort required by the program office to increase the

reserved amount. Whatever the cause, "negative savings" are incurred (i.e., P_2-P_1), because the amount awarded is higher than the initial amount anticipated, and thus, reserved.

The model is applicable when considering competitive procurements. The primary difference is that there are more proposals. After a winner has been selected, the negotiation phase begins; and the relationship depicted in Figure 2-1 applies.

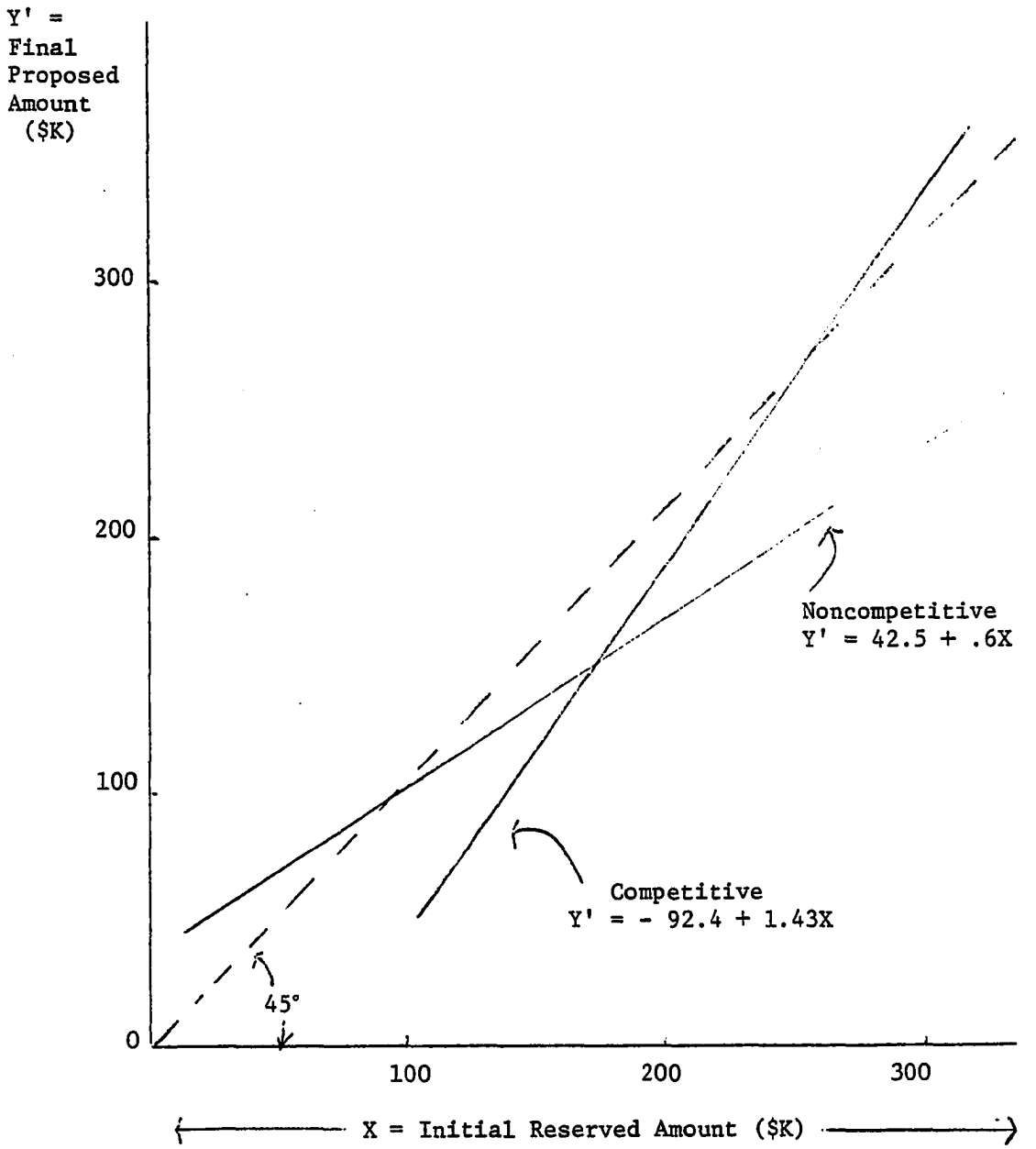
When all HUD awards over $10,000 for external analysis and management services are considered, the results generally support the discussion above. The regression line is below the 45^{o} line for awards of approximately $200,000 or less and is above the 45^{o} line thereafter ($Y' = - \$60,730 + 1.30X$). The relationship is significant, and the correlation coefficient is quite high ($r = .97$).

An interesting finding in the analysis is the difference in overall tendencies exhibited by competitive and noncompetitive awards, respectively. As Figure 2-2 on the next page indicates, the regression lines for competitive and noncompetitive awards have substantially different slopes. Both relationships are significant at the .0001 level, and the correlation coefficients are high ($r = .86$ for noncompetitive awards and $r = .997$ for competitive awards). The following inferences may be made:

1) Competitive awards produce more savings to the Government in the lower award categories (i.e., below $150,000). But noncompetitive awards actually produce more savings to the Government in the very large award categories (e.g., above $300,000).

2) Noncompetitive awards below $100,000 are likely to produce

Figure 2-2: Relationship Between The Final Proposed Amount And Initial Reserved Amount[1]



[1]Least amount awarded noncompetitively equals $12,000. Least amount awarded competitively equals $31,000.

"negative savings" to the Government; i.e., the amount awarded is higher than the initial amount anticipated, and thus, reserved. Competitive awards greater than approximately $250,000 are likely to produce negative savings for the Government. Some reasons for these tendencies occurring will be offered later in the analysis when the variable of procurement method (i.e., competitive or noncompetitive) is compared with the variable of organizational type (i.e., for-profit or not-for-profit). The purpose here is only to indicate that these two procurement methods are likely to exhibit different tendencies.

Although the relationships depicted in Figure 2-2 suggest that competitive and noncompetitive basic awards need to be examined separately, Figure 2-2 does not suggest that competition--or the lack of it--explains the disproportionality in the distribution of HUD awards for external analysis and management services between for-profit and not-for-profit organizations. In order to determine whether competition (or the lack of it) is a factor in influencing the distribution of award amounts between for-profit and not-for-profit organizations, modifications to basic awards must also be considered, because modifications are noncompetitive procurements. As explained more in detail later in the thesis, there tend to be a larger number of modifications than basic awards, but the mean amounts awarded through modifications are smaller than basic awards. In order not to distort the comparison between the dollar amounts and number of awards in Table 2-1, neither modification amounts nor the number of modifications awarded were included in that table. Further, with the mean amounts differing substantially, there was some concern in utilizing analysis of variance as a methodological

technique when the total amounts received by for-profit and not-for-profit organizations, respectively, were being considered in formulating Table 2-2; i.e., there was concern that the "cell means" would be biased. It is for the same reason that analysis of variance has not been used to analyze the relationship in Table 2-3 below; i.e., the total amount of noncompetitive awards includes the amount awarded by use of modifications.. Table 2-3 indicates that whether the procurement method is competitive or noncompetitive is not significantly important in explaining the amount awarded by HUD to for-profit and not-for-profit organizations, respectively, to perform external analysis and management services; and other variables must be included in the design to explain the distribution of award amounts between organizational types. In the next section, another way of classifying procurement methods will be examined to determine if this different perspective can aid in explaining the difference in the amount awarded to for-profit and not-for-profit organizations, respectively.

Table 2-3: Percent Of Dollar Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 To Procure External Analysis And Management Services, By Competitive And Noncompetitive Procurement Methods.

Organizational Type	Procurement Method		All Procurement Methods
	Competitive	Noncompetitive	
For-Profit	88.2	75.4	81.8
Not-For-Profit	11.8	24.6	18.2
All Organizational Types	100.0	100.0	100.0
N($)	$16.0m	$15.8m	$31.8m
Kendall's tau_b = .17	$p > .05$	conclusion: accept H_o	

Exclusionary And Nonexclusionary Awards

Both noncompetitive and competitive procurement methods may be "exclusionary" or "nonexclusionary."[17] Exclusionary methods restrict the eligibility to compete to certain organizational types, whereas nonexclusionary methods do not. It is hypothesized that differences in the amounts awarded to the respective organizational types through the use of exclusionary methods result from political factors, and differences in the amounts awarded through the use of nonexclusionary methods result from behavioral and economic factors which influence an organization's ability to compete. Behavioral factors include the ability of an organization to recognize and respond to procurement opportunities. Economic factors include the ability to propose to perform services at a reasonable cost to the Government. As will be discussed later in the thesis, there is a strong interrelationship between behavioral and economic factors.

The presence or lack of exclusion cannot, without the aid of other variables, explain adequately the disproportionate distribution of the award amounts to for-profit and not-for-profit organizations, respectively. This can be discerned by the relationships described in Table 2-4 on the following page. Although the distributional pattern between categories (i.e., exclusionary and nonexclusionary) is not significant, it should be noted that the total amount awarded on a nonexclusionary basis exceeds that awarded on an exclusionary basis. Thus, behavioral and economic factors may be more important than political factors in explaining the distribution of the amount awarded to for-profit and not-for-profit organizations. If this is determined to be

true later in the analysis, the hypothesis that federal policy favors for-profit organizations in the competitive process for contractual awards to provide external analysis and management services will be rejected; and implications of accepting the null hypothesis will be explored in the conclusion.

Table 2-4: Per Cent Of Dollar Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 To Procure External Analysis And Management Services, By Exclusionary And Nonexclusionary Procurement Methods

Organizational Type	Procurement Method		All Procurement Methods
	Exclusionary	Nonexclusionary	
For-Profit	75.4	83.3	81.8
Not-For-Profit	24.6	16.7	18.2
All Organizational Types	100.0	100.0	100.0
N($)	$ 6.0m	25.8m	$31.8m
Kendall's tau_b = - .08	p > .05		conclusion: accept H_o

As Table 2-5 on the next page suggests, political, behavioral, and economic factors may have substantially different impacts upon the distribution of awards for external analysis and management services between for-profit and not-for-profit organizations, depending upon whether the procurement method is competitive or noncompetitive. For example, for-profit organizations received 100 per cent of all HUD exclusionary noncompetitive awards for external analysis and management services in FY 79 and the first quarter of FY 80, but only 50 per cent of exclusionary competitive awards. Even more surprising is the increase in the share of nonexclusionary awards to for-profit organizations from 70 per cent for noncompetitive procurements to 97 per cent for

competitive procurements. Attempting to explain why not-for-profit organizations only receive 3.2 per cent of competitive nonexclusionary award amounts will be one of the primary tasks of the thesis.

Table 2-5: Per Cent Of Exclusionary And Nonexclusionary Awards Received By For-Profit And Not-For Profit Organizations In FY 79-80 From HUD For External Analysis And Management Services, By Procurement Method (measured by dollar amounts)

Type of Award and Organizational Type	Procurement Method	
	Competitive	Noncompetitive
Exclusionary Awards		
For-Profit Organizations	50.0	100.0
Not-For-Profit Organizations	50.0	0.0
All Organizational Types	100.0	100.0
Nonexclusionary Awards		
For-Profit Organizations	96.8	69.6
Not-For-Profit Organizations	3.2	30.4
All Organizational Types	100.0	100.0

The major control variable in the model is the presence (or lack of it) of competition. Not only is the promotion of competition the official goal which has the largest impact upon the procurement process, but as the analysis of the relationship between the award amount and the reserved amount has indicated there appear to be substantial differences in the characteristics exhibited by competitive and noncompetitive awards. Noncompetitive awards will be examined in Chapter III, and competitive awards will be examined in Chapter IV.

Within each of these chapters, both exclusionary and nonexclusionary awards will be examined. Thus, the research will focus upon four general categories of procurement awards: nonexclusionary noncompetitive awards, exclusionary noncompetitive awards, nonexclusionary competitive awards, and exclusionary competitive awards. However, as the following

discussion will indicate, it is necessary to address the specific subtypes of these four major classifications of procurement methods.

The first major subtype which must be examined separately is modifications, because modifications are not subject to the rules and regulations governing basic awards. Furthermore, modifications differ in that they result from basic awards; and, thus, it is expected that the amount of the basic awards will have some impact upon the amount awarded through modifications.

For basic noncompetitive awards, it will be necessary to search for variables other than exclusion (or the lack of it) to explain the difference in the amount awarded to for-profit and not-for-profit organizations; i.e., specific procurement methods must be examined. Note that in Table 2-6 on the next page, a zero cell occurs for mean amounts of exclusionary noncompetitive awards to not-for-profit organizations. The reason the zero cell occurs will be discussed later in the thesis. For the present, the important consideration is that the overall relationship is not significant at the .05 level (the significance level is .411). Again, this implies that the amount awarded noncompetitively by HUD for external analysis and management services in FY 79 and the first quarter of FY 80 cannot be explained by differences between groups (of organizational types or of procurement methods), but must be accounted for by other variables (e.g., specific procurement methods which may or may not be targeted for certain organizational types).

Similarly, it is necessary to concentrate the analysis within categories when examining competitive procurements. As the two-way analysis of variance table on the next page suggests, organizational

Table 2-6: Mean Dollar Amounts And Number Of Noncompetitive Contracts Awarded By HUD In FY 79 And The First Quarter Of FY 80, By Procurement Method And Organizational Type

Organizational Type	Procurement Method		All Procurement Methods
	Exclusionary	Nonexclusionary	
For-Profit			
$\bar{X}$	$131,573	$ 67,446	$115,024
N	23	8	31
Not-For-Profit			
$\bar{X}$	$0	$183,271	$183,271
N	0	14	14
Both Organizational Types			
$\bar{X}$	$131,573	$141,153	$136,256
N	23	22	45
Statistical Method: 2-way ANOVA Significance Levle: .411 Conclusion: Accept H_o, reject H_1			

Table 2-7: Mean Dollar And Number Of Competitive Awards Received From HUD In FY 79 And The First Quarter Of FY 80 By For-Profit And Not-For-Profit Organizations To Perform External Analysis And Management Services, By Procurement Category

Organizational Type	Procurement Category	
	Exclusionary	Nonexclusionary
For-Profit		
Amount	$133,285	$574,705
N	11	22
Not-For-Profit		
Amount	$112,879	$102,948
N	13	4
Source of Variation	F	Sig. of F
Between Classes (i.e., overall relationship)	1.164	.334
Two-Way Interactions (between procurement category and organizational type)	.60	.442
Conclusion: Accept H_o		

type and the competitive procurement method (i.e., exclusionary versus nonexclusionary) do not adequately explain the difference in the amount awarded by HUD competitively for external analysis and management services in FY 79 and the first quarter of FY 80. The reason this occurs is the close similarity between the mean amounts received by not-for-profit and for-profit organizations for exclusionary competitive awards. Table 2-7 indicates that unlike noncompetitive awards, exclusionary competitive contracts were awarded in FY 79 and the first quarter of FY 80 to both for-profit and not-for-profit organizations. As will be explained later in the thesis, these two categories of exclusionary competitive contracts to for-profit and not-for-profit organizations must be examined separately, because they differ according to their degree of legality and conformance to official goals of the Congress.

Crosstabular analysis performed for the competitive and non-competitive relationships reflected in Table 2-5 supports the conclusion which has been derived as a result of utilizing analysis of variance; i.e., variables other than the presence of exclusionary policies are influencing the distribution of both competitive and noncompetitive procurement awards between for-profit and not-for-profit organizations. The model is adequate to establish a framework for analysis, but the search for other variables must be more specific (i.e., "within groups") in order that these variables can be identified. Ironically, the necessity to examine more closely within groups supports the relevance of further research, for if the general model were adequate to explain the distribution of the amount awarded to for-profit and not-for-profit organizations, there would be a greatly diminished need to continue this research.

In sum, it appears that the analysis of awards should be focused within groups--more specifically, upon the procurement method utilized to award the basic contract or modification. The specific procurement methods will be examined in the following order:

- Noncompetitive (Chapter III)
  - (1) nonexclusionary noncompetitive awards as modifications to a basic contract;
  - (2) basic nonexclusionary noncompetitive awards;
  - (3) exclusionary noncompetitive awards;
- Competitive (Chapter IV)
  - (4) exclusionary competitive awards to not-for-profit organizations;
  - (5) exclusionary competitive awards to for-profit organizations; and
  - (6) nonexclusionary competitive awards.

In order to determine the impact upon the distribution of procurement awards between organizational types produced by utilizing one procurement method vis-à-vis another, a random sample of all files at HUD concerning external analysis and management services was obtained. It was hoped that this would provide a longitudinal base for the research. However, it was ascertained that many HUD awards made prior to FY 79 were in such a state of disarray and confusion that the procurement method could not be determined. Thus, for basic awards made prior to FY 79, only organizational characteristics of the winners of the award were considered valid. For basic contracts awarded in FY 79 and the first quarter of FY 80, or for modifications, no such problem in the data base

was encountered.

Therefore, the primary focus of the research will be upon contracts awarded by HUD to perform external analysis and management services in FY 79 and the first quarter of FY 80. Longitudinal perspectives will be reserved for the conclusion in which the distribution of awards resulting from the utilization of any one procurement method will not be of interest; rather, the interest will be to determine what the research implies regarding the trends which are occurring in procurement policy affecting the distribution of awards between for-profit and not-for-profit organizations.

The general research design used to analyze the contract amounts awarded by use of the specific procurement methods will be as follows:

- determine the legality and conformance to official goals of issuing awards by that procurement method;
- assess whether that procurement method is relatively efficient;
- ascertain whether there is any statistical relationship between organizational type and the amount awarded through use of that procurement method;
- search for other variables which might improve the statistical relationship between organizational type and the procurement method;
- if this relationship is not significant, find the variable(s) which accounts for the most variance in the amount awarded through use of that procurement method;

- determine the general advantages and disadvantages received by the Government for utilizing this procurement method; and
- for nonexclusionary awards, determine which organizational types or sub-types are least able to compete effectively and attempt to explain, within the scope of the thesis, why this occurs.

NOTES FOR CHAPTER II

[1]Carol Weiss, Evaluation Research: Methods For Assessing Program Effectiveness (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1972), p. 25.

[2]Ibid.

[3]Ibid.

[4]Ibid.

[5]Ibid., p. 29.

[6]Ibid.

[7]See: Lee F. Anderson, Meredith W. Watts, Jr., and Allen R. Wilcox, Legislative Roll-Call Analysis (Evanston, Illinois: Northwestern University Press, 1966), p. 51.

[8]The Congressional concept of efficiency is the same as that utilized in economic theory; i.e., maximizing the return from a given output, or conversely, minimizing the input necessary to produce given output. See: Buchanan and Flowers, op. cit., p. 176 f.n.

[9]41 CFR 1-1.001 - 1 and 1 - 1.011 - 2

[10]For an explanation of conditions required for a competitive situation, refer to f.n. 26, Ch. I.

[11]The "least-cost alternative," as used in this paper, means the offering of an equivalent good or service at the lowest price. In the private sphere, the least-cost solution is almost always the most efficient, even if it is not always the most effective or equitable. But in the public sphere--particularly where Government procurements are concerned--the least-cost alternative is often not the most efficient (because of additional societal marginal cost associated with competitive procurements). This will be discussed later in the thesis. Almost any economics text may be referred to for the theoretical argument as to why competition will result in the lowest price. For an application of this logic to Government procurement, see: Raymond C. Dosky, ed., DOD Cost And Price Analysis, Revised Ed. (Columbus, Ohio: The Ohio State University Research Foundation, 1978c.), pp. 2-1 through 4-22.

[12]For a discussion of this lack of clarity regarding tasks for outside services, see: Rosenblum and McGillis, op. cit., p. 22.

[13]An institutionalist, instead of accepting a priori techniques and abstractions and then attempting to explain reality with the aid of such techniques, generally focuses his/her attention upon economic relationships in their social context. Theory may result, but usually lacks the refinement and finesse of analytic economics. See: Ben B. Seligman, Main Currents In Modern Economics (Toronto, Ontario: Collier-Macmillan Canada, Ltd., 1962), p. 790.

[14]Kenneth R. Wedel, "Purchase of Service Contracting: A State of the Art Review," p. 6. Contained in: Kenneth R. Wedel, Arthur J. Katz, and Ann Weich, ed. Social Services By Government Contract: A Policy Analysis (New York: "Praeger Publishers," Holt, Rinehart, and Winston, 1979), pp. 1-10.

[15]For example, Dr. Maggie Taylor, Contracting Officer for HUD, used this argument in a staff meeting in May, 1980.

[16]See: Ed Lovett and Monte Norton, "Determining And Forecasting Savings Due To Competition," National Contract Management Quarterly Journal, pp. 18-27.

[17]The terms "exclusionary" and "nonexclusionary" are not found (to this student's knowledge) in the literature. The federal government is likely to use "restricted to," but this does not seem to capture the meaning which is herein intended.

CHAPTER III*

NONCOMPETITIVE AWARDS

Introduction

The issuance of noncompetitive awards provides a problem for those who would advocate a closer adherence to official goals by the bureaucracies, e.g., Theodore Lowi in The End to Liberalism.[1] For in this case, program goals and official goals are in conflict. The program office's goal is to accomplish its mission with the least expenditure of time and effort; and earlier analysis (i.e., in Chapter II) has indicated that the least-time and least-effort alternative is, on the average, to award contracts noncompetitively. However, the Congressional mandate is to promote competition. As a result, whenever the decision (as in HUD) is left to the program office as to which procurement method is to be utilized, the official goal is likely to be subverted.

The Code of Federal Regulations specifies that the contracting office is to ensure that official procurement policy is followed.[2] In the case of HUD, the responsibility has been abrogated to the program offices. Of the contracts examined which were awarded in FY 79 or the first quarter of FY 80, the procurement method recommended

---

*All notes are located at the end of the respective chapters. Notes for Chapter III are located on page 118.

by the program office was utilized in 98.9 percent of the subsequent procurements. And all "sole-source" contractors recommended by the program office were subsequently awarded the contract. It is doubtful, however, that the degree of abrogation would be as high for goods or services other than external analysis and management services. Further, it is not known just how ubiquitious this degree of abrogation is throughout the federal system. It is suspected, however, to be quite high.

There are essentially three strategies used by the bureaucracies to avoid complying with the official goal of promoting competition. These are: 1) to claim that competition is impracticable (and thus not required under the law); 2) to claim a need for continuity of effort by an existing contractor; and 3) to cite other official goals which are incompatible with that of promoting competition. Each strategy has its own particular set of justifications allowed by law. The justifications claiming the impracticability of competition can be utilized for all basic awards to any of the respective organizational types and are thus indicative of nonexclusionary noncompetitive awards. Justifications claiming the need for continuity of effort by an existing contractor are utilized for modifications. Justifications utilized to promote official goals other than competition are limited to basic awards to certain organizational types and are thus indicative of exclusionary noncompetitive awards. As a percentage of all HUD procurements for external analysis and management services awarded noncompetitively in FY 79 and the first quarter of FY 80, modifications account for 61.3 percent; nonexclusionary noncompetitive awards account for 19.6 percent; and exclusionary noncompetitive awards account for 19.1 percent.

Since modifications account for the largest proportion of noncompetitive awards, they will be discussed first in the following section. Then nonexclusionary awards will be examined. Finally, exclusionary awards will be discussed. The hypothesis is that the disproportionate share of noncompetitive awards to for-profit organizations is due primarily to exclusionary factors. Stated another way, there will be no significant difference in the distribution of HUD procurement awards for external analysis and management services between for-profit and not-for-profit organizations when modifications and nonexclusionary noncompetitive awards are examined, but there will be when exclusionary noncompetitive awards are examined. Relative advantages and disadvantages of the respective procurement methods will be summarized in the last section of this chapter.

Modifications

Modifications to existing contracts are allowed "...if the proposed contractor has a substantial investment of some nature which would have to be duplicated at excessive Government expense by another source entering the field."[3] This is interpreted somewhat loosely by the bureaucracies to include duplication of effort. Thus, if all tasks are not completed, or if the agency increases the number of tasks related to any one topic area, another contractor would have to incur "start-up" costs and delays which the present contractor supposedly would not have to incur. In many cases, this is a valid concern.

However, in most procurements for external analysis and management services, this justification is not usually applicable. First of all, experience has indicated that tasks often specified for

modifications have little to do with the original contract. That is, the present contractor has as much start-up costs as a new contractor would. Secondly, many training, management, and social research projects have few start-up costs. A professional working in one organization can continue on with a project begun by another professional in another organization, particularly since the core information needed to do so is the property of the Government. There is normally no more interruption of the flow of work than if there were a change of professional talent within the organization.

The motivation for the bureaucracies to award modifications is not to save the Government start-up costs, but time. Whereas the mean time needed to award a noncompetitive basic award by HUD for external analysis and management services is 112 days (compared with 164 days for a competitive award), the average time needed to award a modification to an existing contract is only 55 days. Thus, the motivation for a program official to maximize program objectives on a least-time and least-effort basis through the use of modifications is substantial. This motivation results in approximately 1.3 modifications for every basic contract issued by HUD for external analysis and management services.[4]

The average number of modifications would be much higher if the possibility of incurring Congressional wrath were not so prevalent. Of all the noncompetitive procurement methods, the use of modifications is criticized the most by outside reviewers such as GAO. The GAO will criticize the agency for substantially misjudging the original cost, or, if the agency increases the number of tasks, criticize the agency for subverting the official goal of competition. Both charges imply

an uncooperative attitude toward the will of the Congress--an impression the agencies seek to avoid or at least minimize.

Whether or not this limited reliance upon modifications results in higher costs to the Government is difficult to ascertain. One measure would be a comparison of amounts awarded through modifications with amounts requested for modifications, similar to that conducted in Chapter II for basic awards. However, for modifications, it is expected and proper that the contractor and the program office will negotiate amounts; thus, the request amount and the modification amount are almost always the same. Therefore, the Government does not incur savings or negative savings by utilizing modifications.

Another criterion of efficiency is the amount of "fee" charged for performing the service. A fee is not the same concept as "profit." A fee may include costs (e.g., interest) not normally reimbursed by the Government as well as profit. For that reason, both for-profit and not-for-profit organizations can charge a fee. For both types of orgnaizations, the fee indicates that portion of the total costs to the Government not related to performing the tasks of the contract. Thus, given two equivalent offers to perform a given service, a lower fee will imply more service being offered for the same cost. Thus, a lower fee would be more "efficient." Similarly, that procurement method which, on the average, awarded lower fee amounts would be more efficient. However, as discussed below, the fee cannot be used as a valid criterion of efficiency when comparing procurement methods-at least in this thesis.

It was originally intended to use the amount of fee as one criterion of efficiency throughout the thesis. But the amount of fee can only be determined for cost-reimbursement contracts, in which the direct costs (e.g., labor), indirect costs (e.g., overhead), and the amount of fee are specified in the contract document. In contrast, fixed-price contracts only specify the total amount which is to be charged to the Government by the contractor to perform any given service; and indefinite quantity contracts specify the total amount which may be charged. Both fixed-price and indefinite quantity contractual instruments were originally designed for goods instead of services; and they are not normally appropriate to procure external analysis and management services, even though certain contract specialists at HUD continue to issue fixed-price and indefinite quantity contracts to procure these types of services. Overall, 23 percent of the number of contracts awarded by HUD in FY 79 and the first quarter of FY 80 to procure external analysis and management services were either fixed-price or indefinite quantify contracts. The issuance of fixed-price contracts has the consequence of only making the amount of fee indeterminate, but the practice of utilizing indefinite quantity contracts has consequences for other criteria of efficiency which will be discussed later in the thesis.

The issuance of fixed-price or indefinite quantity contracts normally has the effect of making the fee indeterminate for modifications to those contracts as well as the basic award, because modifications to fixed-price and indefinite quantity contracts will only increase or decrease the total amount of the contract. Thus, the amount of fee is an unreliable criterion of efficiency for modifications

as well as for basic awards. As a result, this thesis will utilize the two criteria discussed earlier to compare the relative efficiency of noncompetitive procurement methods; i.e., the time required to execute the instrument and the amount of savings to the Government caused by the contractor's uncertainty as to how much the Government has reserved as being a reasonable cost for that procurement. When competitive awards are examined, other criteria of efficiency will be developed.

In the past, for-profit organizations have received a substantially higher percent of the number of modifications awarded for external analysis and management services, but as the data in Table 3-1 below implies, a new trend may be occurring. Not-for-profit organizations were awarded more modifications in the first quarter of FY 80 than for-profit organizations. A statistically significant relationship is present between the number of modifications awarded to the respective organizational types and the time period involved. While working at HUD during FY 79 and FY 80, it seemed

Table 3-1: Number Of Modifications Awarded By HUD For External Analysis And Management Services, By Organizational Type And Time Period

Organizational Type	Time Period						All Time Period	
	Prior to FY 79		In FY 79		First Qtr. FY 80			
	%	N	%	N	%	N	%	N
For-Profit	69	101	79	38	38	10	67	149
Not-For-Profit	31	46	21	10	62	16	33	72
All Organizational Types	100	147	100	48	100	26	100	221
$x^2 = 15.06$ df = 2	p .01							

that not-for-profit organizations were becomeing as aware of the possibilities of obtaining modifications as for-profit organizations and that both organizational types were equally as aggressive in pursuing those possibilities.

Even though the ability of for-profit organizations to secure, on the average, a larger number of modification awards is becoming questionable, descriptive information indicates that the average amount received by for-profit organizations is greater than that received by not-for-profit organizations. The mean amount awarded by HUD through modifications for external analysis and management services in FY 79 and the first quarter of FY 80 was $98,344 for for-profit organizations and $35,912 for not-for-profit organizations. However, one-way analysis of variance indicates that there is a high probability that this relationship occurred by chance; i.e., the relationship is not statistically significant at the .05 level. Unless this probability can be improved through the introduction of other independent variables, it must be concluded that there is currently no statistically significant relationship between the amount awarded by HUD through modifications to procure external anlaysis and management services and organizational type.

The following indicates the results of the initial search to determine those other variables which might be of use in improving the statistical relationship between the amount awarded through modifications and organizational type:

- organizational size

  H_1: There will be a statistically significant relationship between the mean modification amounts awarded to small organizations (i.e., less than 200 employees) and large organizations (i.e., more than or equal to 200 employees).

df: 1 (between groups),
120 (within groups)

sig.: F = 2.342, sig. = .1285

conclusion: accept H_0, reject H_1

- contract type

H_1: There will be a statistically significant relationship between the type of contract and the modification amount. Specifically, higher amounts are more likely to be awarded for modifications to fixed-price and indefinite quantity contracts than modifications to cost-reimbursement contracts.

df: 1 (between groups),
119 (within groups)

sig.: F = .202, sig. = .8177

conclusion: accept H_0, reject H_1

- minority ownership

H_1: There will be a statistically significant relationship between minority-ownership and the modification amount. Specifically, minority-owned organizations are discriminated against in the awarding of modifications.

df: 1 (between groups),
120 (within groups)

sig: F = .696, sig. = .4058

conclusion: accept H_0, reject H_1

- description code

H_1: There will be a statistically signficant relationship between the type of external analysis and management service procured (e.g., automatic data processing services) and the modification amount.

df: 5 (between groups),
116 (within groups)

sig.: F = .109, sig. = .9902

conclusion: accept H_0, reject H_1

- office

  H_1: There will be a statistically significant relationship between the program office (e.g., the Assistant Secretary for Community Development) and the modification amount; i.e., some program offices tend to award greater amounts of dollars through modifications, on the average, than others.

  df: 7 (between groups),
  114 (within groups)

  sig.: F = .268, sig. = .9652

  conclusion: accept H_0, reject H_1

Of the variables examined, organizational size comes closest to meeting the statistical significance criterion, but even it fails to do so; but because it does seem more important than the other variables, the next step is to add organizational size as an independent variable to determine whether organizational size and organizational type together account for most of the variance in the modification amount. As Table 3-2 on the next page indicates, the descriptive information supports such a conclusion. However, neither the overall relationship nor the interaction effects are significant at the .05 level.

In order to determine whether organizational type might be important in helping to explain the variance in the modification amounts awarded within groups, one-way analysis of variance was conducted for large and small organizations, respectively, with the modification amount as the criterion variable and organizational type as the independent variable. As expected, for small organizations, there is no statistically significant relationship between the modification amount and organizational type.[5] More surprisingly, a similar result is obtained for large organizations.[6] Thus, it must be concluded

Table 3-2: Mean Modification Amounts Awarded By HUD In Fy 79 And The First Quarter Of FY 80 For External Analysis And Management Services, By Organizational Type And Organizational Size

Organizational Type	Organizational Size	
	Small	Large
For-Profit		
$\bar{X}$	$36,461	$224,320
N	57	28
Not-For-Profit		
$\bar{X}$	$45,689	$ 5,494
N	28	9

Source of Variation	df	F	sig
Main Effects	2	1.346	.264
Organizational Type	1	.355	.552
Organizational Size	1	2.166	.144
Interaction Effects	1	1.361	.246
Explained	3	1.351	.261

that there is no statistically significant relationship between the effects of organizational type and organizational size in explaining the variance in the modification amount.

The variance in the amount received through modifications is hypothesized to be due to the same political, behavioral, and economic factors which explain the distribution of the basic awards. The reason is that modification amounts are only adjustments in the basic amount. This is not to imply that the amount awarded through modifications for any given procurement can be predicted by the basic amount awarded. Regression analysis indicates that for all HUD awards in FY 79 and the first quarter of FY 80 to procure external analysis and management services, the relationship between the modification amount (as the dependent variable) and the award amount (as the independent variable) is not significant at the .05 level. But the total shares of the amount awarded through modifications and basic award are very

similar for the respective organizational types. This is indicated in Table 3-3 below. Note that there is a high probability that any differences in the percentages of amounts received by the respective organizational types through modifications and basic awards have occurred by chance. Thus, it can be expected that the percentages of the total amount awarded through modifications received by for-profit and not-for-profit organizations tends to approximate the relative shares received of the total basic amount awarded.

Table 3-3: Percent Of Modification And Award Amounts Received By For-Profit And Not-For-Profit Organizations In FY 79 And The First Quarter Of FY 80

Organizational Type	Percent Of:	
	Modification Amount	Basic Amount
For-Profit	86	80
Not-For-Profit	14	20
Total	100	100
N($)	$9.7m	$22.1m
P $>$ .05; accept Ho		

Again, it is hypothesized that the behavioral, economic, and political factors which affect the distribution of basic award amounts between for-profit and not-for-profit organizations affect the distribution of amounts awarded through modifications to these organizational types. Some of these factors are not difficult to identify, but in some cases, qualitative judgements must be relied upon to assess why one organizational type tends to receive a disproportionate share of the awards. This is particularly applicable to nonexclusionary noncompetitive awards (limited hereafter in this thesis to refer only to basic awards) by which organizations receive substantial amounts

to perform external analysis and management services and by which those awards are made virtually outside of the public arena. This type of procurement method is the topic of the next section.

Nonexclusionary Noncompetitive Awards

Nonexclusionary noncompetitive awards for external analysis and management services are allowed by the following justifications contained in the Code of Federal Regulations[7] (which has the status of law):

- time (if time is of the essence and if the proposed contractor can complete the required task within the time frame while all others would fail);
- duplication cost (if the proposed contractor has a substantial investment of some nature which would have to be duplicated at excessive Government expense by another source entering the field); and
- uniqueness (the unique capability, highly specialized experience, or facilities possessed by the proposed contractor).

Paradoxically, although time is a primary motivating factor for agencies to award contracts noncompetitively, time cannot normally be cited as justification for procurements in excess of $10,000 for external analysis and management services. The reason is that if the agency justifies a noncompetitive procurement on the basis of time exigency, it is subject to considerable criticism if the services are not delivered as scheduled. A recent GAO investigation criticized the Department of Commerce on just these grounds.[8] For most external analysis and management services, both the tasks and the time required to perform those tasks are often vague and indefinite.

Likewise, duplication costs are not often cited for external analysis and management services. As stated earlier, this is often a

consideration in awarding modifications, but is rarely applicable for basic awards to procure external analysis and management services. The contracting market for external analysis and management services just is not characterized by such monopolies of information.

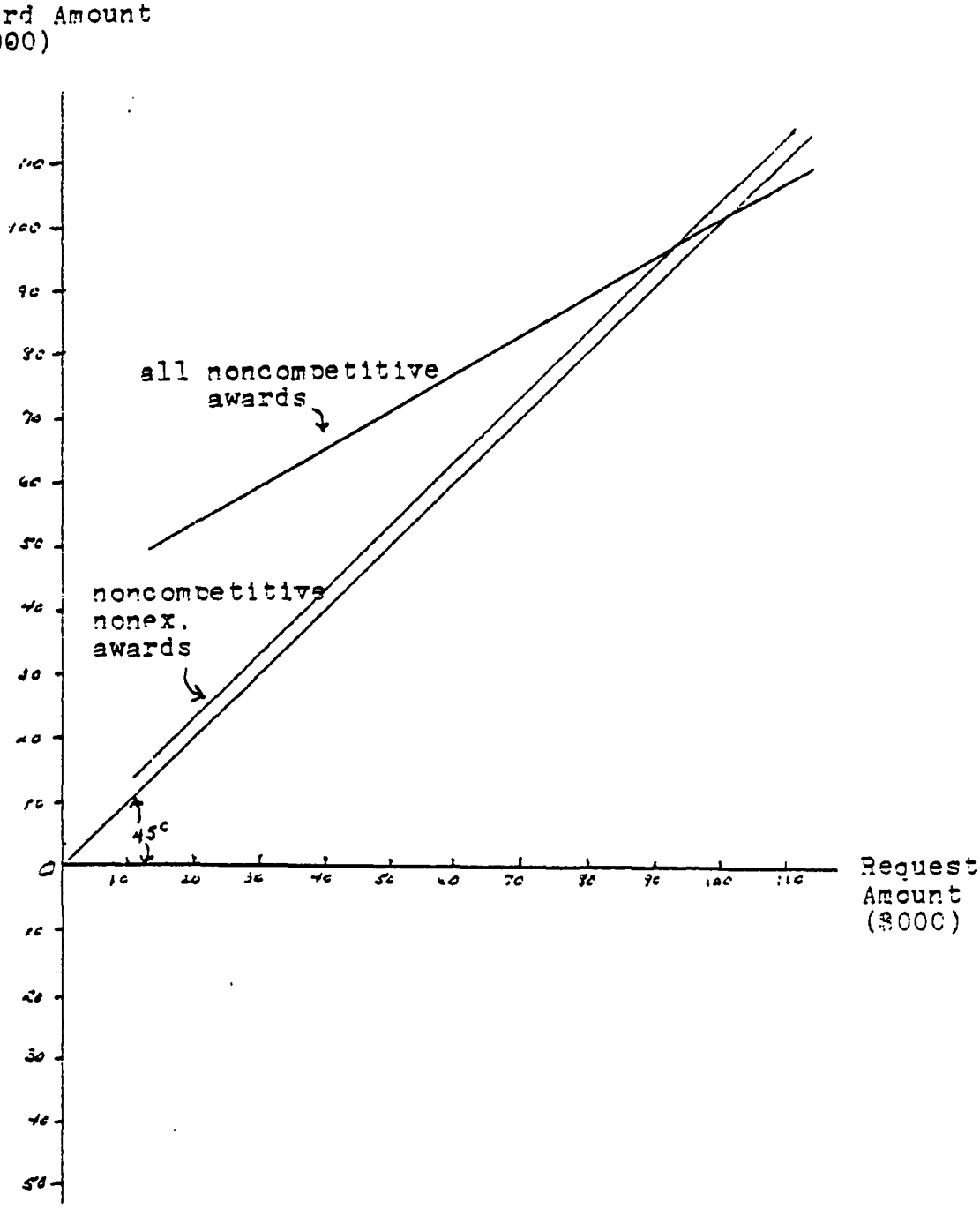
The justification cited most often is uniqueness; i.e., that the contractor is the only organization with the needed expertise to perform the service. As the GAO has noted, this is rarely true.[9] Just as the contracting market for external analysis and management services is not characterized by a monopoly of information, it is not characterized by a monopoly of talent. The one characteristic of contractors--particularly those engaged in providing external analysis and management services--is that they either have or can obtain quite readily almost any disciplinary or professional expertise. Whenever this justification is used, it serves only to lend a spurious legality to a decision to award noncompetitively (i.e., on a least-time and least-effort basis).

Why agencies utilize this justification is somewhat perplexing. The law specifically states that noncompetitive nonexclusionary awards may, with the concurrence of the contracting officer, be justified on other grounds.[10] For example, unsolicited proposals considered to have superior merit are often used <u>within</u> the bureaucracy to justify a noncompetitive procurement. It would seem equitable and forthright to outside reviewers (e.g, from the GAO) if the agencies would simply state this as the reason for making the award in the first place. But at least at HUD, this is not done. It could not be determined from the contract files which noncompetitive awards resulted from unsolicited proposals and which did not.

In sum, the legal justifications used for nonexclusionary noncompetitive awards are not thought to be any more of a factor in explaining the distribution of those awards between for-profit and not-for-profit organizations than for modifications. Again, the primary consideration in choosing this particular procurement method is a desire by program officials to award a contract on a least-time basis. Nonexclusionary noncompetitive awards by HUD for external analysis and management services are not as efficient in terms of least-time as modifications--i.e., 95 average days compared with 55 average days--but are more efficient than competitive awards (which take an average of 164 days to be executed).

As Figure 3-1 on the next page suggests, nonexclusionary noncompetitive awards are also relatively efficient judged by the criterion of the deviation from the request amount.[11] This type of procurement method does not result in the negative savings to the Government normally associated with noncompetitive basic awards for external analysis and management services, for there is a small difference between the regression line for nonexclusionary awards and the 45° line. On the other hand, there are no savings to the Government caused by uncertainty either over task definition or indefinite quantity. It is hypothesized that there is a higher degree of collusion between program officials and contractors for nonexclusionary noncompetitive awards than for any other procurement method except modifications.

Figure 3.1 Relationship Between The Award Amount And Requested Amount For HUD Contracts For External Analysis And Management Services, FY 79-80 (Selected Procurement Methods)



Not-for-profit organizations awarded nonexclusionary noncompetitive contracts by HUD for analysis and management services in FY 79 and the first quarter of FY 80 received a mean amount of $183,271, while for-profit organizations awarded contracts procured by this method only received, on the average, $67,446. However, one-way analysis of variance indicates that this relationship is not significant at the .05 level.[12] Unless the significance level can be improved with the introduction of other independent variables, it must be concluded that there is no significant relationship between organizational type and the distribution of current nonexclusionary noncompetitive awards by HUD for external analysis and management services.

The following indicates the results of the initial search to determine through one-way analysis of variance those other variables which might be of use in improving the statistical relationship between the amount awarded through nonexclusionary noncompetitive awards and organizational type:

- organizational size

  H_1: There will be a statistically significant relationship between the mean amounts awarded through use of nonexclusionary noncompetitive contracts to small and large organizations, respectively.

  df: 1 (between groups),
  20 (within groups)

  sig.: F = .031, sig. = .8625

  conclusion: accept H_0, reject H_1

- minority ownership

  H_1: Nonminority-owned firms will, on the average, receive more of these types of awards than minority-owned firms. The difference between the mean amounts awarded to minority-owned firms and nonminority-owned firms will be significant.

results of analysis: Analysis of variance is not applicable. All organizations receiving nonexclusionary noncompetitive awards were nonminority firms.

- contract type

  H_1: There will be a statistically significant relationship between the type of contract awarded (i.e., cost-reimbursement, fixed-price, or indefinite quantity) and the amount awarded through the use of nonexclusionary noncompetitive awards.

  df: 2 (between groups),
  19 (within groups)

  sig.: F = .534, sig. = .5946

  conclusion: accept H_0, reject H_1

- description code

  H_1: It is hypothesized that the "class" of external analysis services (e.g., ADP services or special studies and analyses) might account for the amount awarded through nonexclusionary noncompetitive contracts. That is, nonexclusionary noncompetitive contracts may tend to be awarded in higher amounts for ADP services than other classes of external analysis and management services.

  df: 1 (between groups),
  20 (within groups)

  sig.: F = .277, sig. = .6042

  conclusion: accept H_0, reject H_1

- requesting office

  H_1: Some program offices will tend to rely much more heavily upon noncompetitive nonexclusionary awards than others, and the relationship between the amounts awarded by this procurement method and the requesting office will be significant.

  df: 4 (between groups),
  17 (within groups)

  sig.: F = 3.059, sig. = .0454

  eta squared: .4186

  conclusion: accept H_1, reject H_0

- woman-ownership

  H_1: Women-owned firms will experience some discrimination in the awarding of nonexclusionary noncompetitive awards. Specifically, the relationship between woman-ownership (as a variable) and the amount awarded through nonexclusionary noncompetitive contracts will be significant.

  df: 1 (between groups),
  20 (within groups)

  sig.: F = .195, sig. = .6631

  conclusion: accept H_0, reject H_1

- fund type

  H_1: It is hypothesized that the fund type might have a significant impact in explaining the awarding of noncompetitive awards. Specifically, it is hypothesized that when the program office has funds which will be lost in the current fiscal year (if not awarded), the program office will tend to award higher amounts of nonexclusionary noncompetitive awards,and vice-versa.

  df: 1 (between groups),
  20 (within groups)

  sig.: F = .441, sig. = .5140

  conclusion: accept H_0, reject H_1

- request quarter

  H_1: It is hypothesized that the quarter in which the program office makes the request for the contracting office to procure a service might have a significant impact in explaining the distribution of nonexclusionary noncompetitive awards. Specifically, the time pressures involved in awarding contracts before the end of the fiscal year will result in a significantly higher amount of nonexclusionary noncompetitive awards for external analysis and management services when the procurement is requested in the fourth quarter.

  df: 5 (between groups),
  16 (within groups)

  sig.: F = .735, sig. = .6078

  conclusion: accept H_0, reject H_1

From the results of the preliminary analysis, it can be concluded that the following variables are not important in explaining the variance in the amount awarded by HUD in FY 79 and the first quarter of FY 80 for external anlaysis and management services through the use of nonexclusionary noncompetitive contracts: organizational size, contract type, woman-ownership, fund type, request quarter, and type of external analysis and management service. The primary variables explaining this variance are: 1) whether or not the organization is minority-owned, and 2) the particular office making the request. Each will be discussed in turn, and their impact upon the distribution of nonexclusionary noncompetitive awards to for-profit and not-for-profit organizations will be assessed.

None of the organizations receiving HUD awards for external analysis and management services procured on a nonexclusionary non-competitive basis are minority-owned. This suggests strongly that some discrimination occurs against minority-owned firms in the competition for nonexclusionary noncompetitive awards. However, the phenomenon is more likely due to a policy that all noncompetitive contracts to minority-owned firms are to be awarded on an exclusionary basis. This will be discussed in the next section. But it should be noted that not all minority-owned firms are eligible for exclusionary awards; and for those not so eligible, some discrimination may be occurring. This would have little impact, however, on the distribution of nonexclusionary noncompetitive awards between for-profit and not-for-profit organizations, respectively. It cannot be said with any degree of certainty that a greater amount awarded on a nonexclusionary noncompetitive basis to for-profit, minority-owned organizations would necessarily

result in a lesser amount to not-for-profit organizations; i.e., nonminority-owned, for-profit organizations might receive less.

The variable explaining the most variance in the amount awarded on a nonexclusionary noncompetitive basis is the requesting office. To determine whether the introduction of the requesting office might aid in explaining the difference between the amounts awarded to for-profit and not-for-profit organizations, respectively, two-way analysis of variance has been utilized. The criterion variable is the amount awarded by HUD on a nonexclusionary noncompetitive basis for external analysis and management services in FY 79 and the first quarter of FY 80. The two independent variables are organizational type (i.e., for-profit or not-for-profit) and the requesting office. Neither the overall relationship nor the interaction effects are significant at the .05 level.[13]

Since it is hypothesized (based upon the results of the one-way analysis of variance tests described earlier) that there are no other variables which (by being introduced as independent variables) would improve the statistical relationship between organizational type and amounts awarded on a nonexclusionary noncompetitive basis, it must be concluded that organizational type is relatively unimportant in explaining the distribution of HUD awards for external analysis and management services procured on a nonexclusionary noncompetitive basis in FY 79 and the first quarter of FY 80.

The variable explaining most of the variance in the amount awarded upon a nonexclusionary noncompetitive basis is the requesting office. In order to lend some perspective, the HUD program offices and the number and mean amounts awarded in various award categories

are reflected in Table 3-4 below. Because the award category is based upon the same variable as the criterion variable (i.e., the award amount), no inferences regarding the presence or strength of the relationship can be made, and the data can only serve a descriptive function.

Table 3-4: Number And Mean Amounts Of Contracts Awarded By HUD On A Nonexclusionary Noncompetitve Basis For External Analysis And Management Services In FY 79 And The First Quarter Of FY 80, By Requesting Office And Award Category

Requesting Office	Award Category		
	Under $100,000	$100,000-$250,000	Over $250,000
Office of Secretary and Allied Offices	0	0	0
Community Planning and Development	$53,129 N = 4	$140,221 N = 5	$424,329 N = 1
New Community Development Corporation	0	0	0
Government National Mortgage Association	0	0	0
Housing	$60,000 N = 1	0	$1,198,980 N = 1
Neighborhoods and Voluntary Associations	$51,775 N = 2	0	0
Policy Development and Research	$29,447 N = 3	$138,633 N = 1	0
Administration	$44,478 N = 4	0	0

The respective program offices differ markedly in their reliance upon nonexclusionary noncompetitive awards. Within HUD, the most conservative are those program offices with high visibility (e.g., the Office of the Secretary), with little need for external analysis and management services (e.g, the Government National Morgage Association),

or which are in a state of declining influence and responsibility (i.e., the New Community Development Corporation). Unsolicited proposals are not likely to be successful when submitted to these types of program offices. Likewise, too much effort spent in cultivating informal commitments from program officials from these offices would probably be unwise.

Another grouping of program offices can be discerned which, by tradition (e.g., Housing or Policy Development and Research), or because they are not powerful enough within the bureaucracy (e.g., Administration or Neighborhoods and Voluntary Associations) to receive unlimited authority to issue noncompetitive contracts, rely only moderately upon nonexclusionary noncompetitive awards to procure external analysis and management services. These are likely to issue noncompetitive contracts only in the lower award categories. For awards over $100,000, they are normally more cautious. Thus, organizations wishing to maximize the chances to secure nonexclusionary noncompetitive awards from these program offices would be advised to limit the scope of effort to that which can be performed for less than $100,000. This does not always hold true, however, as the one large award ($1.2 million) made by Housing suggests.

The office most likely to procure external analysis and management services through the use of nonexclusionary noncompetitive contracts is Community Planning and Development (CPD). It is not clear whether this program office relies more heavily upon unsolicited proposals than the other program offices, but this is felt to be the case. Further, it is suspected that informal relationships between CPD program officials and contractors are extremely important in

explaining the distribution of CPD awards procured on a nonexclusionary noncompetitive basis. The GAO notes that contractors often enter into "long and friendly" relationships with agencies.[14] But if this analysis is correct, it suggests that the GAO was in error in focusing its audit at the agency level instead of the program office level.

The ability to develop close relationships with members of the bureaucracy is a behavioral factor which is thought to affect the distribution of nonexclusionary noncompetitive awards between organizations. More specifically, these relationships are most important when they involve the top management of the organization and the most influential program officials within the bureaucracy. This does not, in the normal case, imply improper behavior. Rather, it is hypothesized that professional relationships are usually the result of a historical satisfaction within the bureaucracy of a contractor's performance and credibility. This has important implications for the value of evaluation studies, for if the hypothesis is correct, the results of evaluation studies could determine which organizations actually perform the best, and nonexclusionary noncompetitive awards could be reserved for these organizations. At present, it can only be hypothesized that such a linkage exists on an informal basis. Also, the value of such a system (whether formal or informal) depends upon whether this procurement method offers advantages to the Government in terms of time and cost efficiency; and this may not be found to be true when other procurement methods are examined.

For the present, it is sufficient to note that although informal relationships are shared with program officials and representatives of for-profit and not-for-profit organizations alike, not-for-profit

organizations definitly compete as well as--and perhaps better than--for-profit organizations for awards secured by this procurement method. Analysis of variance and crosstabular analysis suggest that there are other variables other than organizational type which affect the distribution of award amounts; further, there is no indication that these other variables (primarily, the ability to develop informal relationships with members of the bureaucracy) are associated with either organizational type. However, the percentages of nonexclusionary noncompetitive awards received by not-for-profit organizations and for-profit organizations differ substantially from the relative percentages received from all other procurement methods (excluding modifications). Not-for-profit organizations received 83 percent of the total amount awarded on a nonexclusionary noncompetitive basis by HUD in FY 79 and the first quarter of FY 80 to provide external analysis and management services, but only 10 percent of the total amount awarded through all other procurement methods (excluding modifications). The problem for not-for-profit organizations is that contracts awarded on a nonexclusionary noncompetitive basis constituted only 14 percent of the total amount procured by HUD in FY 79 and the first quarter of FY 80. And as discussed in the conclusion, this total share of award amounts accounted for by nonexclusionary noncompetitive contracts may decline in the near future.

One of the factors which may contribute to this decline is the official goal to promote participation in the procurement process by minority-owned firms. This official goal will be discussed in the next section. Prior to this examination, it can only be noted that minority-owned firms <u>either</u> do not enjoy the "friendly" relationships

with program officials or, if they do enjoy such relationships, receive noncompetitive awards through utilization of a different procurement method.

Exclusionary Noncompetitive Awards

The official goal of promoting competition is in direct conflict with the official goals of promoting opportunity for certain groups through the issuance of exclusionary noncompetitive contracts. These types of awards are not only reserved for specific racial or cultural groups, but also to certain organizational types; and this has an identifiable impact upon the distribution of awards for external analysis and management services between for-profit and not-for-profit organizations.

The only direct authorization for exclusionary noncompetitive awards is that which is contained in the 1978 amendments to the Small Business Act of 1958 (hereafter referred to as "the Act"):

> ...the Congress finds...that the power to let sole source Federal contracts pursuant to section 8(a) of the Small Business Act can be an effective procurement assistance tool for development of business ownership among groups that own and control little productive capital....[15]

The purpose of Section 8(a) of the Act is not to aid all those who own and control little productive capital, but only those "socially and economically disadvantaged persons" by virtue of "...their identification as members of certain groups that have suffered the effects of discriminatory practices or similar invidious circumstances over which they have no control..."[16] That is, social disadvantage is more important as a criterion of eligibility than economic status. However, both criteria are to be considered in determining the eligibility of specific

organizations, which is the responsibility of the Small Business Administration (SBA).

Because the primary authorization for giving preference to socially and disadvantaged groups in procurements is Section 8(a) of the Small Business Act, organizations owned by individuals who have been determined by the SBA to be eligible for such preference are commonly referred to as "8(a) firms." To receive 8(a) status, an organization must be: 1) at least 51 percent owned and operated by individuals determined by the SBA to be socially and economically disadvantaged, and 2) a "small business" as defined by the SBA.

The Act specifically targets as socially disadvantaged groups "Black Americans, Hispanic Americans, and other minorities."[17] It has been left up to the discretion of the SBA to identify these "other minorities." Other minorities which have been designated by the SBA include Native Americans, Americans of Asian descent, and those from the Pacific Islands. For other groups, the SBA is probably being more conservative than the Congress intended. The final conference report for the amendments cites an example which is indicative of how flexible the Congress wished the intent of the Act to be interpreted:

> ...the Conferees realize that other Americans may also suffer from social disadvantage because of cultural bias. For example, a poor Appalachian white person who has never had the opportunity for a quality education or the ability to expand his or her cultural horizons, may similarly be found socially disadvantaged....[18]

The SBA has not included people from the Appalachians or Ozarks as socially deprived groups and has been resisting granting 8(a) eligibility to other groups claiming social deprivation and eligibility under the auspices of Section 8(a)--e.g., women and Hasidic Jews.

In the past, the guidelines used by the SBA to determine a "small business" were based upon a combination of capital assets and number of employees. More recently, the SBA has been attempting to institute standards based only upon the "industry" and number of employees.[19] This will be discussed more in the next chapter. For the purposes of this thesis, a small organization primarily offering external analysis and management services is considered "small" if it employs less than 200 employees.

The most important consideration for the purposes of this thesis is that only for-profit organizations are eligible to participate in the 8(a) program. This is a result of the Act's requirement that 8(a) eligibility is dependent upon, in part, being classified a "small business concern." The SBA has correctly interpreted Congressional intent that only a for-profit organization be considered a "concern." It is hypothesized that this factor has identifiable impact throughout the federal government upon the distribution of awards for external analysis and management services between for-profit and not-for-profit organizations, because as 8(a) awards increase as a percent of total amounts awarded for external analysis and management services, the proportion of award amounts which not-for-profit organizations are eligible to receive declines. Further, it is hypothesized that the agencies are increasing markedly both the number and amounts of 8(a) contracts. This is due to increased pressure from the SBA for the agencies to increase such procurements and from a perception by program officials that 8(a) procurements offer a defensible method for awarding contracts noncompetitively (thus avoiding the time delays inherent in competitive procurements).

Because of the scope of the thesis, these hypotheses can not be proven. However, in regard to the proposition that the federal agencies are increasing their reliance upon 8(a) procurements, HUD's performance is probably typical. Although HUD has actually awarded only 19.1 percent of its noncompetitive procurements on an exclusionary basis, this accounts for almost 50 percent of all noncompetitive basic awards for external analysis and management services. The projected goal for HUD for FY 80 is that 8(a) contracts account for 59 percent of all noncompetitive basic awards.[20]

It should be noted that this is a planned policy instead of a haphazard pattern. As previously discussed, minority firms do not receive nonexclusionary noncompetitive HUD awards for external anlaysis and management services, although they are just as eligible as other organizations to do so. Rather, when a program official is given authority to issue a contract noncompetitively, and a minority-owned firm is available as a sole-source, the program official will recommend that the noncompetitive procurement be secured through the 8(a) program because such a procedure is not only more defensible, but also it appears to actively support the official goal of promoting participation by minorities. Further, when given the authority to issue a contract noncompetitively, and given that there are two organizations equally capable of performing the service--one an 8(a) firm and the other a small not-for-profit organization--the program official will recommend that the 8(a) firm be chosen as the sole-source and that the contract be issued under the 8(a) program. Again, this is not due to a concern for equity, but a pragmatic ethic to achieve program goals with the least expenditure of time and effort.

In contrast with other noncompetitive procurement methods, the primary motivation for the program official is to save effort, and only secondarily, time. The average time for HUD to execute an exclusionary noncompetitive basic award for external analysis and management services is 122 days, compared with 55 days for modifications and 95 days for nonexclusionary noncompetitive awards. Exclusionary noncompetitive awards are only efficient in terms of least-time when compared with competitive awards, which take an average of 164 days to execute. However, program officials must be substantially involved in the process to award contracts competitively, but they have to expend relatively little effort on noncompetitive awards. For 8(a) awards, the primary effort must be expended by the contracts office. One of the most byzantine processes in the federal government involves the approval of an 8(a) contract. First, the agency making the award constructs a contract for the amount of the service with the SBA. In fact, this is only a clearance, but it is extremely burdensome in terms of effort by the contract specialist--at least as much as issuing a nonexclusionary noncompetitive contract. Then, the agency must formulate another contract for the contractor, and this process takes as much effort as awarding a nonexclusionary contract.

The time spent would, on the average, be double the time spent on a nonexclusionary noncompetitive contract except that contract specialists are under pressure from the program offices to get the final contract executed; for, legally, the contractor is not supposed to be able to begin work until the final contract is executed. But program officials do not normally understand the process to award an 8(a) contract. In their perception, once the initial contract is

signed with the SBA, the contractor should be able to begin work. Thus, they are likely to give informal authorization for the contractor to begin work. But the contractor is normally unwilling to incur too much cost without a formal contract. They begin to pressure the program office, which in turn complains to the contracting office.

Exclusionary noncompetitive awards are also extremely inefficient for HUD procurements for external analysis and management services in which the total amount of the award is less than $100,000. An important factor is that the Act implies that one of the purposes of letting contracts on a sole-source basis to 8(a) firms is to aid in capital formation. Capital formation cannot normally occur unless there is an excess of revenue compared to expenditures; i.e., there must be an increase in retained earnings. As a result, agencies are never criticized for over-compensation of 8(a) firms; and program officials can quite easily obtain clearance from within the bureaucracy to increase the reserved amount for an anticipated 8(a) procurement as long as that increase is relatively small (e.g., $10-$30 thousand).

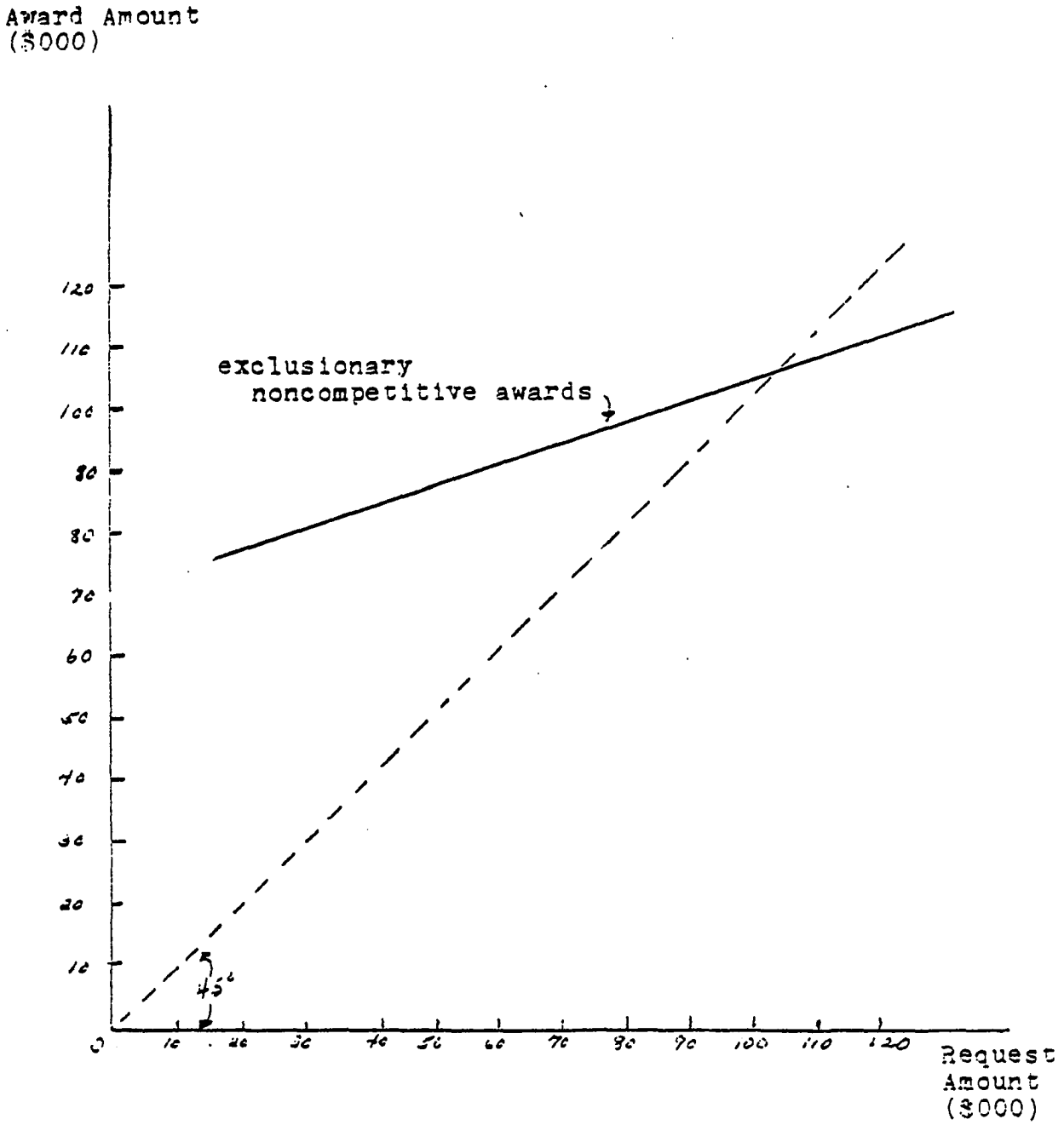
Most 8(a) contractors understand this process. A favorite tactic is to wait until the initial contract has been cleared through the SBA and then refuse to do the work (which has often been begun without the knowledge of the contracting office) unless the contract amount is increased. The contract office is then faced with cancelling the procurement and beginning anew or with authorizing the higher amount. At HUD, the latter course is almost always chosen to avoid conflict with the program office. Thus, for procurements under $100,000 for external analysis services, the amount actually awarded almost

always exceeds that originally estimated. This is indicated in Figure 3-2 on the next page.

If issuing awards of under $100,000 on an exclusionary noncompetitive basis is extremely expensive for the Government, the use of this procurement method produces savings for awards in excess of $100,000. It is hypothesized that this is due to the program official wishing to avoid criticism by underestimating costs for a major procurement; i.e., the program official will normally "withdraw" the request rather than lobby for an increase. Most contractors are aware that they may lose an award altogether by exceeding the reserved amount for large procurements. Further, the slopes of the regression lines comparing the amount reserved and the amount awarded suggest that there is less collusion between program officials and contractors for 8(a) noncompetitive awards than for nonexclusionary noncompetitive awards. In the absence of collusion, as the level of effort increases, and as tasks become more numerous and interrelated, costs become more difficult to estimate. And if the contractor is likely to err for a large 8(a) noncompetitive procurement, it is more likely to be on the side of caution.

HUD only awards exclusionary noncompetitive contracts as allowed by law. This is indicated in the sample results in that no such contracts for external analysis and management service in FY 79 and the first quarter of FY 80 were awarded to not-for-profit organizations and that all exclusionary noncompetitive contracts were awarded to 8(a) firms. Thus, analysis of variance is inappropriate in determining the significance of the distribution of exclusionary noncompetitive awards between for-profit and not-for-profit organizations. But

Figure 3.2 Relationship Between The Amount Awarded And The Initial Amount Reserved For Exclusionary Noncompetitive Contracts Awarded By HUD For External Analysis And Management Services, FY 79 And The First Quarter Of FY 80.



it can be stated that exclusionary noncompetitive awards account for almost 38 percent of the overall difference between the total amounts awarded noncompetitively to for-profit and not-for-profit organizations, respectively, for current (i.e., FY 79 and the first quarter of FY 80) external analysis and management services.[21]

In order to determine what variables (other than the primary ones of organizational type and 8(a) status) affect the distribution of HUD awards for external analysis and management services procured on an exclusionary noncompetitive basis, one-way analysis of variance has been performed. The criterion variable is the amount awarded on a exclusionary noncompetitive basis. The independent variables correspond closely to those utilized for nonexclusionary awards, so that some comparisons can be made. The results of the analysis may be of use when, in the conclusion, both the equity and effectiveness (of achieving official goals) of exclusionary awards are examined.

It does not appear that organizational size is an important variable in explaining the distribution of exclusionary noncompetitive awards for external analysis and management services. Although the descriptive statistics suggest that organizations with less than 200 employees receive a higher mean amount of such awards than organizations with more than 200 employees, the relationship is not significant at the .05 level.[22] This indicates that the program may not be achieving its goal to direct such procurements to those representatives of those groups that "own and control little productive capital," because it is hypothesized that there is an extremely high correlation between organizational size and existing capital; i.e., organizations that

have more than 200 employees are likely to own and control significant amounts of capital.

The program does, however, appear to be effective in directing its primary effort to minority groups. Out of 23 contracts for external analysis and management services awarded to 8(a) organizations, HUD awarded 22 to minority-owned organizations. Further, there is no indication of any favoritism shown by race or culture after 8(a) eligibility has been determined. Not only is there no significant difference between the mean amounts awarded minority-owned and nonminority-owned firms,[23] but there is no significant difference between the amounts awarded to the respective racial categories (e.g., black or hispanic).[24]

Unexpectedly, the analysis indicates that some favoritism may be shown to women-owned 8(a) firms. The mean amount awarded by HUD to women-owned, 8(a) organizations for external analysis and management services in FY 79 and the first quarter of FY 80 is $296,919, compared to $115,825 for 8(a) organizations not owned by women. The relationship is signficant at the .05 level.[25] One factor may be that there are so few women-owned firms that the owners of these organizations may be more "visable" within the bureaucracy, particularly to senior program officials who are women and who (at least within HUD) tend to be advocates for women's rights. But the scope of the data base prevents testing this proposition.

Similar to nonexclusionary awards, HUD exclusionary noncompetitive awards for external analysis and management services do not seem to be highly associated with the type of contractual instrument used (e.g., cost-reimbursement or fixed-price), the type of external analysis and management service being procured (i.e., ADP vis-à-vis

other external analysis and management services), or the fund type (i.e., whether or not the program office would lose funds if the procurement were not awarded in the same fiscal year as the program office made the request for the procurement). None of these relationships was found to be significant at the .05 level.[26]

In contrast to nonexclusionary noncompetitive awards, there is no significant difference in the program offices regarding their willingness to award exclusionary noncompetitive contracts to 8(a) organizations.[27] It is assumed that all the assistant secretaries of the major program offices strive to maximize the amount awarded to 8(a) organizations. They are constrained only in that they are also expected to limit total noncompetitive procurements to avoid criticism by the GAO or other reviewing agencies. The confusion caused by attempting to conform to two conflicting goals is substantial.

It is hypothesized that the ability of various 8(a) organizations to receive exclusionary noncompetitive awards is due to the behavioral factor of developing informal relationships with members of the bureaucracy. But unlike nonexclusionary noncompetitive awards, these relationships do not seem to be as concentrated within certain program offices and may not be as close (if the relationship between the award amount and reserved amount is any guide). Experience gained as a contract specialist at HUD has indicated that organizations seeking 8(a) contracts must be very aggressive in seeking out opportunity from within the bureaucracy. But again, without being able to assess the degree of reliance by HUD upon unsolicited proposals, it is not clear whether this aggressiveness is usually channeled into submitting

unsolicited proposals or in developing informal relationships with members of the bureaucracy.

Summary

All noncompetitive awards have the identifying characteristic that the amounts received by the respective organizations are due, in large part, to informal relationships established between representatives of the organizations and program officials. It is hypothesized that these relationships develop because of the bureacracy's satisfaction with past performance and perceptions of the credibility of contractors. However, given the scope of the thesis, this hypothesis can not be tested. Further, it is not clear as to the impact of other variables which may influence the awarding of noncompetitive contracts (e.g., the submission of unsolicited proposals).

Overall, the research indicates that the proportion of modification amounts which received by the respective organizational types corresponds closely to the proportion of basic amounts. In contrast, the total amount received by 8(a) organizations on an exclusionary noncompetitive basis is likely to be a set figure, established in advance of the fiscal year by HUD and the Small Business Administration. The total amount awarded by HUD on a nonexclusionary noncompetitive basis may be dependent upon the total amount awarded through utilization of other procurement methods. This proposition will be discussed in the conclusion. For now, it need only be noted that not-for-profit organizations tend to compete very well for nonexclusionary noncompetitive awards.

Exclusionary noncompetitive awards cannot be defended on grounds of efficiency. As Table 3-5 below indicates, exclusionary noncompetitive awards are the least efficient judged by the efficiency criterion of the time needed to execute the contract (or modification). The result is more mixed when judged by the criterion of savings to the Government. For awards of less than $100,000, exclusionary noncompetitive awards are the least efficient if it is assumed realistically that the slope of the regression line for modifications is 1.0. For awards over $100,000, exclusionary noncompetitive awards probably produce more savings to the Government than the other two noncompetitive procurement methods. But the overall judgement is that awarding contracts on an exclusionary basis is probably the least efficient method of procuring a service noncompetitively--particularly if the hidden cost of double effort (caused by SBA procedures) is considered.

Table 3-5: Ranking Of Noncompetitive Procurement Methods Used By HUD For Awarding Contracts For External Analysis And Management Services In FY 79 And The First Quarter Of FY 80, By Selected Efficiency Criteria (Note: 1 = Most Efficient)

Procurement Method	Rank in Terms of Efficiency Criterion:		
	Least-Time	Savings Over Amount Originally Anticipated	
		Awards Under $100,000	Awards Over $100,000
Modifications	1	1	2
Nonexclusionary Noncompetitive Awards	2	2	3
Exclusionary Noncompetitive Awards	3	3	1

However, the method of issuing sole-source contracts to 8(a) firms does seem to be contributing toward the official goal of aiding capital formation for firms owned by members of socially and economically disadvantaged groups. No tendencies could be discerned which would imply discrimination against any racial group, yet most of the 8(a) program is being reserved for members of racial minorities--just as the Congress intended. However, the low participation rate of women-owned firms is probably indicative of an overly-conservative interpretation of enabling legislation by the SBA. The opposite is probably true of the SBA allowing firms with more than 200 employees to participate in the program. A person who owns a firm with more than 200 employees is not economically disadvantaged--regardless of racial or cultural origin.

In sum, exclusionary noncompetitive awards can be defended in terms of equity. But critical to the argument justifying preference to 8(a) firms is the presupposition that organizations owned by members of socially and economically disadvantaged groups are, in fact, less able to compete effectively for federal contracts. As the next chapter will indicate, there is some question regarding the validity of this presupposition. That is, promoting participation by minorities may not be incompatible with competition. If this is indeed the case, exclusionary noncompetitive awards may not be justifiable, and the confusion caused by competing official goals could be removed. Then it can legitimately be asked whether the same Congressional goals could be accomplished with nonexclusionary means.

NOTES FOR CHAPTER III

[1]Lowi states: "Juridicial democracy tends to reduce the inconsistency between power and legitimacy." See: Theodore J. Lowi, The End of Liberalism (New york: W.W. Norton and Company, Inc.), p. 313.

[2]41 CFR 24-3.101-50(a).

[3]41 CFR 24-3.101-50(c)(1)(iv).

[4]For basic contracts awarded by HUD prior to FY 79, the mean number of modifications were 1.07 prior to FY 79, .23 in FY 79, and .02 in the first three months of FY 80. For contracts awarded in FY 79 and the first three months of FY 80, the mean number of modifications were .18 in FY 79 and .24 in FY 80. Since awards prior to FY 79 have had a much longer performance period (some as long as 8 years) the two sets of data are not directly comparable. It is hypothesized that, over time, the mean number of modifications awarded per contract will be approximately the same for contracts awarded in FY 79 as prior to FY 79. No initiative was observed while this student was a contract specialist at HUD to decrease the reliance upon modifications. On the other hand, there seemed to be no abnormal increase in the number of modifications being awarded. Thus, it is expected that for every basic HUD award for external analysis and management services in FY 79, there will eventually be between 1.3 and 1.4 modifications.

[5]With 1 (between groups) and 83 (within groups) degrees of freedom, F = .142 and the significance level is .7069.

[6]With 1 (between groups) and 35 (within groups) degrees of freedom, F = .528 and the significance level is .4722.

[7]Primarily 41 CFR 24-3.101-50. An additional justification exists for procuring certain goods and ADP systems noncompetitively, i.e., if "...the proposed contractor is the only one which can fulfill a requirement that the desired item be compatible with existing equipment or systems." Source: 41 CFR 24-3.101-50 (c)(1)(iii). Further, there are certain "exclusions:" 1) architect-engineering services, 2) for utilities, 3) purchases from the mandatory Federal Supply Schedule (for goods) whenever only one source is listed, and 4) 8(a) procurements with the Small Business Administration. Source: 41 CFR 24-3.101-50(b). Only the latter is of interest in this thesis and will be discussed in the next section.

[8]U.S. General Accounting Office, "Controls Over Consulting Service Contracts At Federal Agencies Need Tightening," (Washington, D.C.: U.S. General Accounting Office, 1980), p. 16.

[9]Ibid, pp. 15-16.

[10]41 CFR 24-3.101-50(c)(1) states: "Factors which shall be considered in preparing the 'Justification' include, but are not limited to (emphasis mine)...."

[11]The regression line for all noncompetitive basic awards is $\overline{Y}$ = $41,800 + .60012 X; r^2 = .73321; and the significance level is .00000. For all nonexclusionary noncompetitive awards, $\overline{Y}$ = $3290 + .99052 X; r^2 = .99708; and the significance level is .0. This level of significance is considered acceptable for such a small sample size (N = 22) when only interval variables are used.

[12]With 1 (between groups) and 20 (within groups) degrees of freedom, F = 1.077, and the significance level is .3117.

[13]For the overall relationship, the degrees of freedom are 6 and 15, F = 1.824, and the significance level is .162. For the interaction effects, F = .018, and the significance level is .895.

[14]U.S. General Accounting Office, "Controls Over Consulting Services...," op. cit., p. 16.

[15]U.S. House of Representatives, "Amending The Small Business Investment Act of 1958," (Washington, D.C.: U.S. House of Representatives, Report 95-1714, 1978), p. 8.

[16]Ibid, p. 4.

[17]Ibid.

[18]Ibid., p. 22.

[19]See: "Revision to Method of Establishing Size Standards And Definitions of Small Business," Federal Register, vol. 45, no 48 (Monday, March 10, 1980), pp. 15445-15450.

[20]U.S. Department of Housing And Urban Development (HUD), "FY '80 MBE Procurement Activity As Of 3/31/80." Mimeographed. The student is interpreting "direct procurement" (the term utilized by HUD) as synonomous with noncompetitive procurements. Further, it is not thought that construction activity or purchase orders are reflected.

[21]Amount awarded noncompetitively to for-profit organizations	$11,924,975
less: amount awarded noncompetitively to not-for-profit organizations	3,894,535
difference	$ 8,030,440

$$\frac{\text{amount awarded on a exclusionary basis}}{\text{difference}} = \frac{\$3,026,173}{\$8,030,440} = .3768$$

[22]With 1 (between groups) and 21 (within groups) degrees of freedom, F = .703, and the significance level is .4111.

[23]With 1 (between groups) and 21 (within groups) degrees of freedom, F = .084, and the significance level is .7749.

[24]With 4 (between groups) and 18 (within groups), F = 1.742 and the significance level is .1848.

[25]With 1 (between groups) and 21 (within groups), F = 4.573 and the significance level is .0444.

[26]For the relationship between the amount awarded on an exclusionary noncompetitive basis and:

1) Contract type
   df: 2(between groups), 20 (within groups)
   F: 2.007
   sig.: .1606

2) Description code (i.e., type of external analysis and management service)
   df: 1 (between groups), 21 (within groups)
   F: 2.651
   sig.: .1184

3) Fund type
   df: 1 (between groups), 21 (within groups)
   F: 1.035
   sig.: .3205

[27]With 4 (between groups) and 18 (within groups) degrees of freedom, F = .352, and the significance level is .8393.

CHAPTER IV*

COMPETITIVE AWARDS

Introduction

Similar to noncompetitive awards, competitive procurement methods may be exclusionary or nonexclusionary.[1] Exclusionary competitive awards restrict the eligibility to compete to certain organizational types, whereas nonexclusionary competitive awards do not. Also similar to noncompetitive awards, differences in the amounts awarded to the respective organizational types through the use of exclusionary competitive methods result from political factors, and differences in the amounts awarded through the use of nonexclusionary competitive methods result from behavioral and economic factors which influence an organization's ability to compete.

Concentrating the analysis upon awards procured by specific procurement methods not only affords the opportunity to examine the competitive advantages and disadvantages of for-profit and not-for-profit organizations, respectively, but also the competitive advantages and disadvantages of certain organizational sub-types (e.g., minority-owned firms). Thus, the presupposition that exclusionary policies are required

---

*Notes are contained at the end of the respective chapters. Notes for Chapter IV are located on page 183.

if these firms are to participate in the largesse distributed through contracts can be tested.

The analysis of competitive awards is more difficult than for noncompetitive awards. The process of making a competitive award is more dynamic, there are more variables to consider, and there are more standards by which to judge the relative ability of any organizational type to compete. The analysis is also complicated in that most competitive processes involve two competitions; i.e., "initial competition" and "best-and-final competition." Initial competition is that stage of the competitive process in which all of the proposals received from prospective offerors are evaluated according to criteria stated in the RFP. Best-and-final competition is that stage of the competitive process in which oral reviews are conducted with those organizations which have a reasonable chance of receiving the award and in which those organizations may submit revised proposals.

Nevertheless, the general research design used to analyze within groups for noncompetitive awards can be adapted to analyzing within groups for competitive awards. Exclusionary competitive awards will be examined first. This will help to introduce some concepts (e.g., "quasi-competition") which are essential to understanding the process of nonexclusionary competitive awards and will identify the political factors which influence the distribution of competitive awards. Then nonexclusionary competitive awards will be examined to identify behavioral and economic factors which influence the distribution of award amounts when all organizational types are allowed to compete. The conclusion will then compare both competitive and noncompetitive methods and suggest

whether exclusionary criteria for eligibility are necessary for accomplishing the purposes for which they were intended.

Exclusionary Competitive Awards to Not-For-Profit Organizations

Exclusionary competitive contracts to not-for-profit organizations are not specifically allowed by the Code of Federal Procurement Regulations and are thus illegal.[2] If not so allowed, nonexclusionary competitive procurement methods must be used; noncompetitive awards must be made, citing the appropriate justifications; or the services must be acquired through assistance instruments (i.e., grants or cooperative agreements).[3] However, some federal agencies are still awarding contracts on an exclusionary competitive basis to not-for-profit organizations. HUD has recently instituted a policy to discontinue this practice,[4] and it is thought that the discontinuance of the practice will become ubiquitous throughout the federal system before long.

Prior to the institution of this policy by HUD, the contracting office did issue from one RFP 20 multi-awards on an exclusionary competitive basis to not-for-profit organizations in FY 79. Thirteen of these awards were selected in the sample. Even though inappropriately (and probably illegally) awarded, this set of contracts does provide a unique opportunity to examine some of the factors which influence the distribution of HUD procurement awards for external analysis and management services when only not-for-profit organizations are allowed to compete against each other. To this student's knowledge, HUD did not issue any other exclusionary competitive awards to not-for-profit organizations in FY 79 and the first quarter of FY 80.

The awards were made by HUD to provide technical assistance to community organizations and neighborhood housing associations. Eligibility was restricted in the competition for these awards to not-for-profit organizations engaged primarily in providing low-cost housing. Most of these organizations were small, averaging 85 employees. Only 2 of the 13 contractors in the sample employed 200 or more employees. No educational institutions or units of state and local government were allowed to participate.

Although awards to these organizations all resulted from one RFP, they provide an opportunity to develop some "tools" of analysis which might be useful when examining other competitive procurement methods. Further, it is hypothesized that these awards will indicate that there are no particular advantages (in terms of efficiency) received by the Government in restricting eligibility to not-for-profit organizations.

One measure of efficiency (i.e., obtaining the same service with the least cost) for competitive procurements is the "cost class."[5] The theory is that all competitors may be ranked according to costs proposed. These ranks may then be collapsed into three classes--first third, second third, and third third. For cost, the first class (i.e., first third) would contain the least expensive alternatives and the third class (i.e., third third) would contain the most expensive alternatives. The most efficient procurements would be those in which services were obtained from those offerors falling within the first class.

Judged by this criterion, Table 4-1 on the next page indicates that this is an inefficient procurement. First of all, those offering

to perform the service at the least cost were the least likely to obtain this award. Even more important is the relative disregard of cost efficiency in making the awards. There is no significant relationship between the amount awarded and the cost class as determined in either the initial or the best-and-final competition. If cost-efficiency were being considered, either or both of these relationships would be in the direction favoring the first third and would be significant.

Table 4-1: Relationship Between The Mean Amounts Awarded By HUD Through Exclusionary Competitive Contracts To Not-For-Profit Organizations In FY 79 And The First Quarter Of FY 80

Initial Competition			Best And Final Competition		
Cost Class	Mean	N	Cost Class	Mean	N
First Third	$101,498	3	First Third	$107,623	4
Second Third	$117,302	3	Second Third	$112,773	2
Third Third	$115,862	7	Third Third	$115,913	7

Analysis of Variance			Analysis of Variance		
DF	F	Sig.	DF	F	Sig.
2	1.526	.2639	2	.437	.6580
Conclusion: Accept H_o			Conclusion: Accept H_o		

Normally, what occurs in the initial competition is less important in regard to the actual amount awarded than what occurs in the best-and-final competition. However, often technical reviewers begin "cluing" potential contractors to lower (or oftentimes, raise) offers. This is what probably occurred for this particular procurement obtained through exclusionary competition to not-for-profit organizations. Regression analysis was utilized to compare the best-and-final offer (as the dependent variable) and the initial offer (as the independent

variable). The regression line is above the 45^{o} line when the amount initially proposed is approximately $125,000 or less and is below the 45^{o} line after that point.[6] This suggests that reviewers might have "clued" potential contractors initially bidding low to increase offers to reflect approximately $125 thousand worth of effort; and organizations initially proposing an amount in excess of $125 thousand were encouraged to decrease offers. Since such cluing is illegal and can lead to a "protest" (which might tie up the award for a year), the clues are normally vague; and some contractors are more adept than others in interpreting them. Otherwise, the slope of the regression line would be horizonal. The important point here is that contract specialists are aware when excessive cluing occurs and in those instances most begin negotiations with the contractor based upon the amount initially proposed--not that proposed in best-and-final competition. For example, the relationship for this set of awards between the initial amount proposed and the award amount is significant at the .03 level, and is moderately strong ($r^2 = .29$), but the relationship between the amount proposed in best-and-final competition and the award amount is not significant at the .05 level.[7]

Judged by another criterion of efficiency--the amount awarded compared with the amount initially reserved--this procurement method (for this RFP) produced savings to the Government. There were two reserved amounts, $125,000 and $150,000. Why the program office reserved one amount for ten of the anticipated procurements and one amount for three of the others is a mystery. This almost never happens for procurements. Normally, the program office receives an allocation, estimates the cost

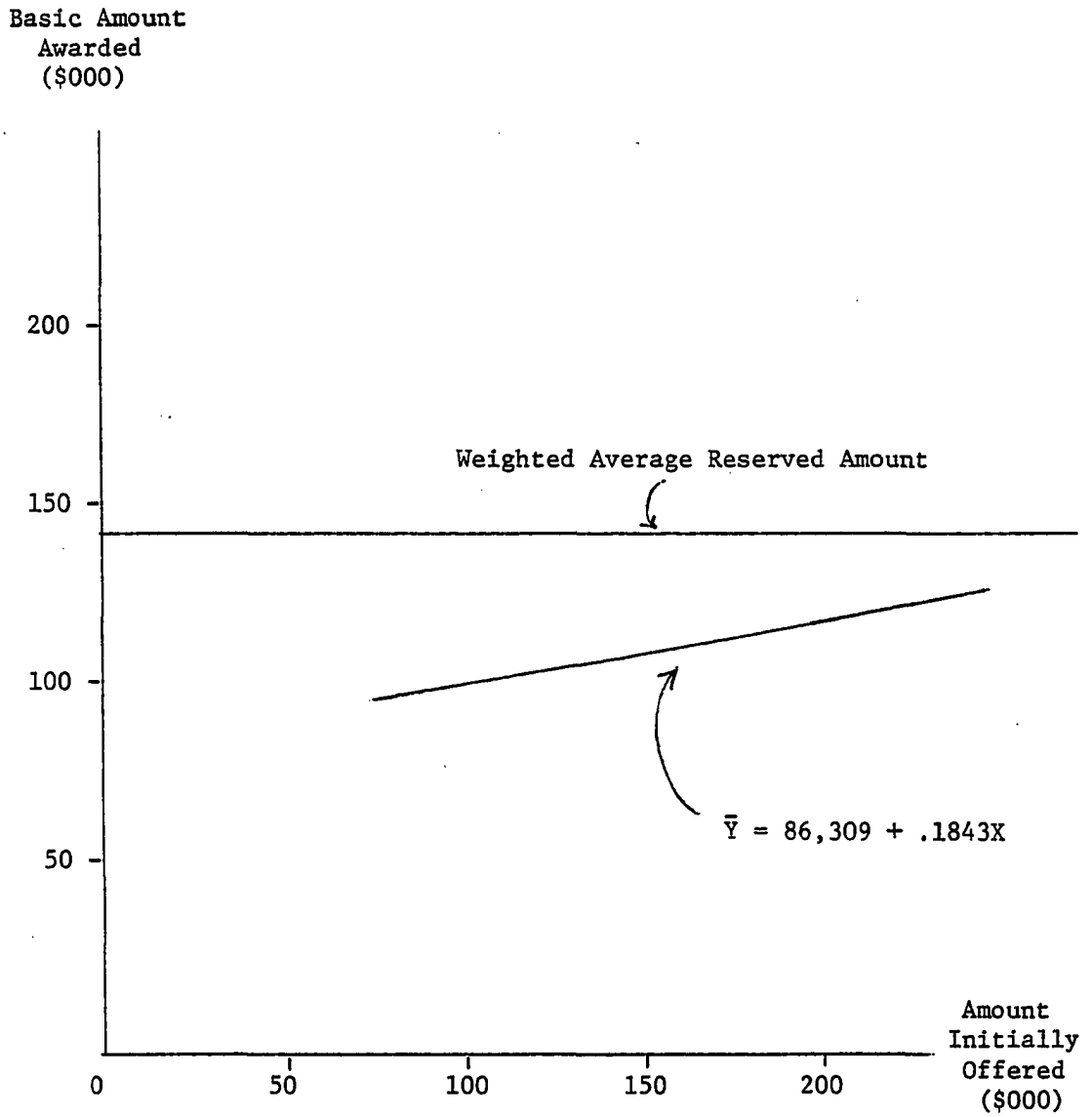
of the service, divides that amount by the desired number of awards, and then reserves that average amount for each anticipated award. In this case, it was necessary to compute a weighted average of the amount reserved and utilize this as the reserved amount.[8] Note that the regression line in Figure 4-1 on the next page is below this average reserved amount.[9]

Overall, utilization of exclusionary competition for this set of multi-awards probably saved the Government money because of uncertainty. But savings were not as great as they could have been if more reliance had been placed on those offerors in the first (or even second) cost class. Further, cluing was probably excessive, and the awards took too long to execute (an average of 155 days). Taking into account the extra time and effort required for all competitive contracts by contract personnel and program officials, even the savings occurring because of uncertainty were probably negligible. That is, the services could probably have been procured at least as efficiently on a nonexclusionary noncompetitive basis.

There are no factors other than the initial amount proposed which are thought to explain the difference in the amount awarded to the respective not-for-profit organizations included in this set of awards. Again, the difficulty is that all awards resulted from one RFP. Thus, not only are most of the "organizational variables" (e.g., whether or not minority-owned) inapplicable, but the values of the "process variables" (e.g., requesting office or requesting quarter) are constants.

One applicable organizational variable is organizational size, as measured by the number of employees. But the amount awarded has no

Figure 4-1: Relationship Between The Amount Awarded And The Initial Amount Offered For HUD Exclusionary Competitive Awards To Not-For-Profit Organizations In FY 79 And The First Quarter Of FY 80 To Perform External Analysis And Management Services



significant relationship with the number of employees (the significance level is .23).[10] That is, as organizational size increases, the amount of the award does not necessarily increase. Furthermore, organizational size does not have any influence in those organizations making relatively higher or lower offers, because the relationship between the number of employees and the initial amount offered is not significant at the .05 level.[11]

The amount awarded is also not significantly related to the technical score, which is the agency reviewers' assessment as to the potential effectiveness (i.e., "technical proficiency") of the contractor in performing the service.[12] But if a high score does not cause a higher amount to be received, it is the most important variable in receiving the award in the first place. This can be shown by ranking the interval scores and then consolidating these ranks into ordinal "technical classes" similar to cost classes. The first technical class indicates those contractors judged most technically proficient, i.e., those falling into the first third. The third class (i.e., third third) denotes those judged least technically proficient. For this set of awards, all organizations finally receiving an award were included in the first technical class, indicating that technical proficiency was the overriding concern.

With most organizational variables and process variables either being inapplicable or constants, it is difficult to determine why certain organizations tend to receive higher scores. Therefore, the task of identifying these factors will be deferred until multiple competitions can be examined in the following sections. It is evident, however, that the ability to receive higher technical scores is not significantly

related to organizational size for this set of awards. Regression analysis indicates that the relationship between technical score and number of employees is only significant at the .34 level.[13] It is hypothesized that the lack of a statistical relationship between organizational size and technical proficiency will be determined for all competitive methods. If this hypothesis holds, it may cast some doubt on whether exclusionary policies need to be implemented to protect small organizations.

Equally as important to this thesis as ascertaining whether some organizational types or subtypes require special preference if they are to participate in the procurement process is to determine the negative consequences of establishing those exclusionary policies. In addition to the efficiency criteria developed for making judgements regarding the respective utility of noncompetitive procuremental methods, competitive methods can be evaluated in terms of efficiency and potential effectiveness (i.e., technical proficiency). It is proposed that the overall criterion of utility be a comparison of cost and technical classes.

A maximally efficient and effective procurement method would ensure that the contractors receiving the awards would be in the first technical class and the first cost class. If this is not possible, the next best choice would be for a contractor to fall within the first class of technical proficiency and the second class of cost or within the first class of cost and the second class of technical proficiency. It may be that awards should rarely, if ever, be made to those falling within the third class of either technical proficiency or cost. This decision-making matrix is reflected in Table 4-2 on the next page.

Table 4-2: Proposed Priority Ranking Of Cells To Select Contractors To Perform External Analysis And Management Services

Cost Class	Technical Class		
	1	2	3
1	1	2	No Award
2	2	3	No Award
3	No Award	No Award	No Award

The decision-making model can be utilized to determine the relative efficiency and effectiveness of both initial and best-and-final competition. The procurement methods with the highest utility would be those in which there was a significant positive relationship between the cost class and the technical class. The model and the criteria have been applied in Table 4-3 on the next page to the best-and-final competition for exclusionary competitive awards to not-for-profit organizations. Since all awards resulted from one RFP, the correlation coefficient is indicative of the overall utility of this one competition as well as for the competitive method as a whole. But normally, the coefficients would differ. Only the coefficients for the method will be of interest later in the thesis.

The decision-making model cannot be applied to the initial competition for this set of awards, because all of the award winners were judged to be in the first technical class; and correlation coefficients cannot be calculated when there are cases applicable to only one category of either of the two variables. When this occurs, however, reliance may be placed upon the original cost rankings compared to the technical rankings. In the case of these awards, there is less of a negative association present in the initial competition than with best-and-final

Table 4-3: Per Cent Of Award Winners In Best-And-Final Cost Classes And Best-And-Final Technical Classes For Contracts Awarded On An Exclusionary Competitive Basis By HUD In FY 79 And The First Quarter Of FY 80 To Not-For-Profit Organizations To Perform External Analysis And Management Services*

Cost Class	Technical Class			All Technical Classes
	1	2	3	
1	14.3	50.0	0.0	30.8
2	0.0	33.3	0.0	15.4
3	85.7	16.7	0.0	53.8
Column Total	100.0	100.0	0.0	100.0
N	7	6	0	13

*Totals do not add due to rounding.
significance: .0164
strength of relationship: Kendall's tau_b = - .59

competition (tau_c = - .333), and the relationship between the cost rankings and the technical rankings does not quite meet the .05 criterion of significance (i.e., the significance level equals .0563).[14] In this thesis, it is assumed that significance has precedence over the strength of the relationship until the .05 significance level is reached. After that point, the strength of the relationship is of more importance. Using this guide, it can be said that the overall utility in using an exclusionary competitive procurement method for not-for-profit organizations should be ascertained primarily from the perspective of best-and-final competition. The correlation coefficient is negative; hence, technical proficiency and cost efficiency were not maximized. Application of the decision-making model in Table 4-2 would have resulted in over half of the contractors which were actually selected for awards not being so selected.

It is hypothesized that this same pattern (i.e., a negative

association between cost-efficiency and technical proficiency) will be found when other competitive procurement methods are examined. This would suggest the need for reform in the emphasis placed on the respective criteria utilized in the procurement process.

The argument here is that no such conflict between cost-efficiency and technical proficiency needs to be inherent in the competition for awards, just as no such conflict is present in the actual performance of external analysis and management services. The competitive process should reflect how outside organizations intend to perform. And if those outside organizations do not intend to--or cannot--perform both efficiently and effectively, then they should not be granted the award in the first place.[15]

It is not clear whether the implementation of this decision-making model would be in conflict with the official goals of the Congress to promote participation in the procurement process by socially disadvantaged groups or small organizations and to promote competition. This cannot be ascertained until those procurements are examined in which all organizational types (and sub-types) are allowed to compete. But it might be helpful to first determine what occurs when only for-profit organizations are allowed to compete against each other. For, as stated in the conclusion, this may become the dominant procurement mode in the future.

Exclusionary Competitive Awards To For-Profit Organizations

Except for a few exceptions which are not of interest in this thesis,[16] competitive exclusionary awards to for-profit organizations are allowed by the Code of Federal Procurement Regulations only for

those organizations certified by the Small Business Administration (SBA) to be "small business concerns." As noted earlier, only for-profit organizations are eligible to be classified as a "concern."[17]

The SBA determines whether an organization is "small" on the basis of a formula for each industry which considers annual receipts, capital assets, and number of employees. Normally, for external analysis and management services, the SBA is quite liberal in interpreting "small;" i.e., if the firm's average annual gross receipts for the preceding three fiscal years do not exceed $8 million and if the number of employees is less than 500.[18]

The formulas used by the SBA have come under criticism from private organizations.[19] Critics charge that the formulas are too complex and are not sufficiently restrictive in their application. As an alternative, the delegates attending the White House Conference On Small Business passed a resolution that the only criterion to be used by the SBA should be the number of employees and that organizations should be classed according to the number of employees as follows:[20]

Class	Number of Employees
A	0 - 9
B	10 - 49
C	50 - 249
D	250 - 499

The conferees recommended that preference be given in procurement awards for organizations in the lower classes (e.g., A or B).

The Office of Advocacy of the SBA has recommended a more restrictive classification schema, which is as follows:[21]

Name	Employee Size
Self-employed	0
Family size	1 - 4
Micro	5 - 19
Mid-sized	20 - 99
Macro	100 - 499

Like the conferees to the Conference On Small Business, the Office of Advocacy recommended that more consideration be reflected for organizations qualifying in the lower categories.

The SBA finally decided to recommend that small business eligibility be determined by industry and by employee size.[22] Probably, the Office of Advocacy's classification schema was utilized for the employee component. Although less complex than the current standards, the industry classifications are confusing, and the size standards are unrealistically low for some external analysis and management services. For example, those organizations engaged primarily in "Management, Consulting, or Public Relations Services" can employ no more than 25 people to be considered small.[23] More realistic is the recommended ceiling of 100 employees for those organizations engaged in "Date Processing Services."[24]

The new proposed size standards have not yet been accepted by the Congress[25] and it is expected that significant revisions will be made in the SBA proposal. The argument here is that this standard should be dichotomous; i.e., either an organization is small or it is large. More classes would only result in more confusion and bureaucratic paperwork. Also, one standard should be formulated for all indus-

tries. Again, either an organization should be classified as small or large. It seems indefensible to argue that because one organization is engaged in providing outpatient care, it is "small" if it employs 100 people, yet an organization performing policy analysis is "large" because it employs 26 people.

The standard utilized in this thesis is a compromise between the maximum mid-sized small firm suggested by the Conference On Small Business and that suggested by the Office of Advocacy. That is, organizations with less than 200 employees are considered small organizations. This is based partially on an empirical analysis of organizations representing themselves as small or large and partially on the observation that employees seem to identify more strongly with organizations employing fewer than this number of employees. This standard will be used to determine whether exclusionary competitive awards are indeed benefiting small for-profit organizations.

There are two exclusionary competitive methods utilized to procure needed services from small business concerns. The first is what is referred to as "small business set-asides." Under this program, all organizations are eligible to compete which have been certified by the SBA to be small business concerns. The second method is more restrictive, because eligible organizations must not only be small business concerns, but have 8(a) status as well.

Analysis of awards regarding these two procurement methods must be kept distinct. The reason is that small business set-asides are more similar to nonexclusionary competitive procurements, but 8(a) competition has as many characteristics of a noncompetitive procurement as a

competitive one. However, some comparisons between the two methods can be made. The comparison will be particularly useful to determine whether 8(a) contractors are unable to compete effectively against other small business concerns.

Both 8(a) competitive awards and small-business set-asides for external analysis and management services are accomplishing the objective of the official goal to involve small for-profit organizations in the procurement process. Over 83 per cent of the awards procured by HUD through small business set-asides and 100 per cent of the awards procured by HUD through 8(a) competitions for external analysis and management services in FY 79 and the first quarter of FY 80 were to small for-profit organizations (i.e., having less than 200 employees). The average employment for those organizations competing through 8(a) competitions was 50, compared with 99 for organizations granted awards as a result of small business set-asides. But this does not imply that these two procurement methods are necessarily unique in encouraging the participation of small organizations in the procurement process. For example, 85 per cent of the awards to not-for-profit organizations discussed in the previous section were to small organizations, and the number of employees of these organizations averaged 85.

As expected, 8(a) competitive procurements are more effective in encouraging minority participation in the procurement process than small business set-asides. Minority-owned firms received 100 per cent of all 8(a) competitive awards and 33 per cent of contracts awarded through small-business set-asides. But even 33 per cent is quite high, considering that minority-owned and "disadvantaged" firms received only

1.5 per cent of total federal procurements in FY 79 and only 7.5 per cent of all FY 79 contracts awarded by HUD.[26] It illustrates that minority-owned firms are able to compete against nonminority-owned firms for small business set-aside programs which have as their purpose the provision of external analysis and management services. And they need no preferential treatment in doing so; rather, minority-owned firms are likely to be "over-represented" in small business set-asides to procure external analysis and management services--at least at HUD.[27] But since all of the firms included in the sample for both 8(a) competition and small business set-asides were black-owned firms, it must be concluded that only black-owned firms are over-represented, while all other minority types are "under-represented." Furthermore, women-owned firms are under-represented in both procurement methods, receiving 20 per cent of all HUD 8(a) competitive awards and approximately 17 per cent of all HUD small business set-asides for external analysis and management services in FY 79 and the first quarter of FY 80.

Unlike exclusionary noncompetitive awards to 8(a) firms, there is little motivation for the agency to utilize competitive 8(a) procedures. Not only is the agency required to follow the ponderous competitive procedures required by the Code of Federal Procurement Regulations, but the agency must then follow the procedure of the SBA to execute the contract. As a result, 8(a) competitions are the most inefficient in terms of time and effort of any procurement method utilized by HUD. For HUD awards to acquire external analysis and management services in FY 79 and FY 80, 8(a) competitions required an average of 204 days to execute. This compares to 189 days for small business set-asides.

The burden of obtaining the SBA clearance for 8(a) awards is evident when comparing the relationship of the time required to execute the contract and the time required by the competitive process (i.e., time allowed to submit proposals plus the time required by technical review panel members to evaluate proposals). The relationship for small business set-asides between these two time variables is significant (at the .002 level) and quite strong (r^2 = .90), but the same relationship for 8(a) competitive awards is not significant at the .05 level and the relationship is much weaker (r^2 = .57).[28] The reason the relationship is not significant is because of the time required to gain SBA clearance.

The difference in total average time spent in executing the contracts would have been even greater between the two procurement methods if there had been more time to respond to the RFP by 8(a) organizations. The average time allowed for 8(a) organizations to respond to the RFP was 19 days, which is inadequate in most cases to develop a viable proposal. This is in contrast to the 42 average days allowed to respond for small business set-asides. Overall, time allowed to present proposals and time for the technical review panel members to judge the technical proficiency of the proposals consumed an average of 44 days for 8(a) competitive awards and an average of 58 days for small business set-aides.

Regression analysis indicates that the time spent in evaluating proposals for small business set-asides is due primarily to the larger number of organizations competing for small business set-asides.[29] On the average, only 3.6 8(a) firms were asked to submit proposals, and 2.6 actually did so. This compares to an average of 140 organizations asked

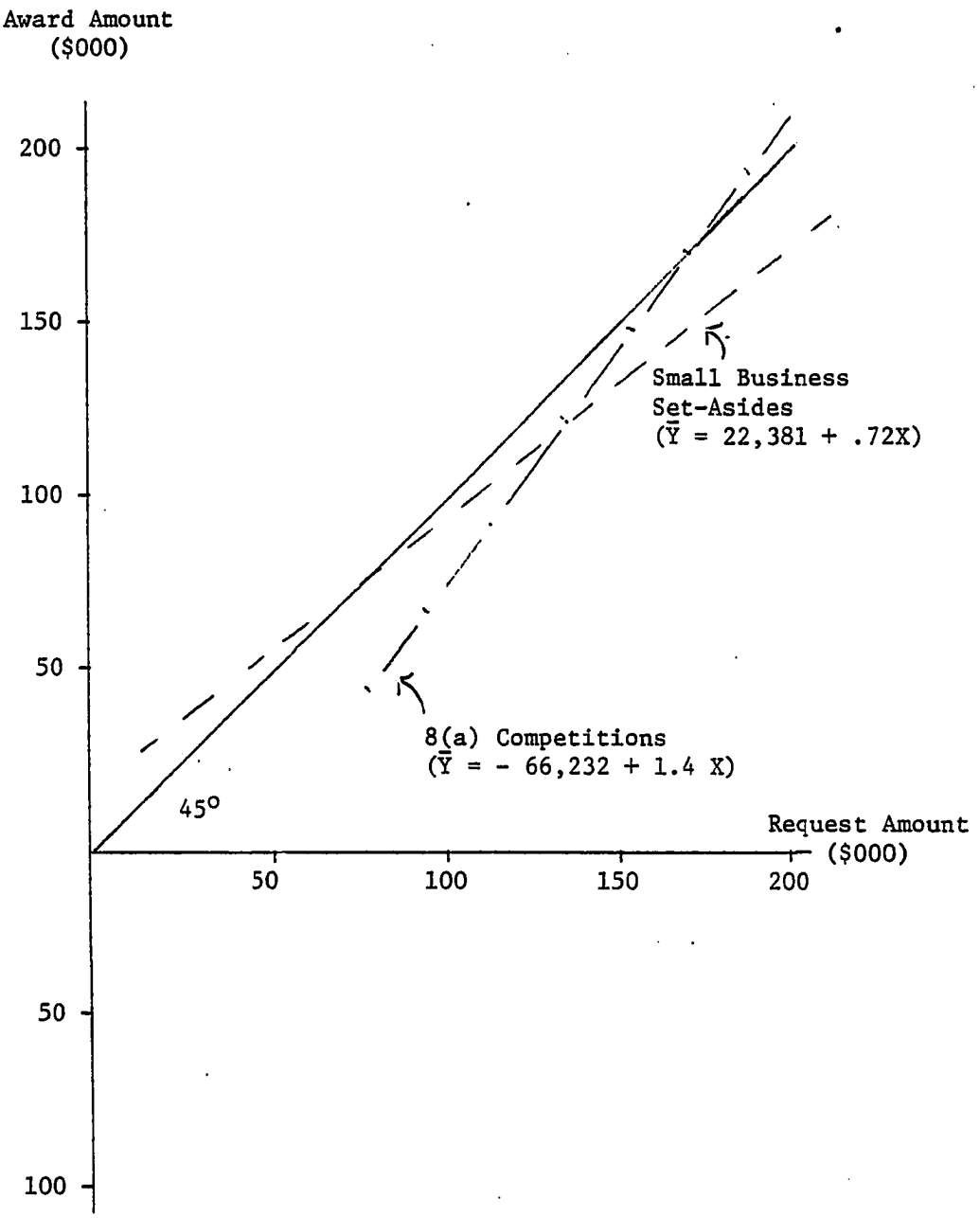
to compete for small business set-asides, even though only 16, on the average, actually submitted proposals. The important consideration, however, is the number of sources (i.e., the number of organizations invited to participate). One official goal of the Congress is that competition should be promoted whenever possible, and small business set-asides are much more effective in doing so than 8(a) competitive awards. This is probably due to the longer time allowed to submit proposals. Simple regression analysis indicates that there is a positive correlation between the number of offers and the amount of time allowed for an RFP for small business set-asides.[30] No such significant relationship was discovered for 8(a) competitive awards.[31]

But effectiveness in promoting competition does not necessarily promote cost efficiency. In fact, for awards less than $125,000, 8(a) competitive awards are much more efficient in terms of providing potential savings to the Government than small business set-asides. After this point is reached, small business set-asides become more efficient. These relationships are depicted in Figure 4-2 on the next page.[32]

Overall, both of these competitive methods produce more savings to the Government than nonexclusionary methods. However, considering the time and effort spent in executing the contracts, the true utility of these methods for producing savings to the Government are diminished even more. And as the following discussion will indicates, the magnitude of savings produced by utilizing both procurement methods were not as great as they could have been.

As discussed when analyzing competitive awards to not-for-profit organizations, another criterion of relative efficiency which can

Figure 4-2: Relationship Between The Award Amount And Requested Amount For HUD Contracts For External Analysis And Management Services In FY 79 And The First Quarter Of FY 80, By Procurement Method



be utilized for competitive awards is the cost class. However, this criterion is not applicable for 8(a) competitive awards because most of these awards are "quasi-competitive."[33] Quasi-competition occurs when a procurement process lacks either cost competition or technical competition but not both. For HUD awards for external analysis and management services, it is cost competition which is always lacking (but theoretically, the reverse could happen). The lack of cost competition is normally only encountered either when the competitive process involves 8(a) firms exclusively or when the RFP specifically states that an indefinite quantity contract is to result from the competitive process. Each of these anomalies will be discussed in turn.

When 8(a) organizations are asked to submit proposals, they are usually required to submit technical proposals, but not cost proposals. The SBA has advised that if an agency requires 8(a) organizations to submit cost proposals, then the agency is, in effect, creating a small business set-aside for 8(a) firms. But doing so is not allowed in the federal procurement regulations and, hence, may be illegal. But if the agency only asks for technical proposals, the proposals can be evaluated similarly to unsolicited proposals, and no conflict with the regulations supposedly occurs.

However, the SBA can only advise vis-à-vis dictate procurement policy. Most contracting officers at HUD have accepted the SBA's advice in this regard, but one did not as late as June of 1980. Thus, some 8(a) competitive awards will not be quasi-competitive. One 8(a) competitive award was identified in the sample in which cost competition was present. It might also be noted that the agencies differ considerably

in their practices regarding 8(a) firms. The Department of Human Services makes no competitive awards to 8(a) firms, whereas the Department of Commerce not only utilizes this procurement method relatively frequently, but also always requires cost competition.[34] The only commonality is the agencies' motivation for issuing 8(a) competitive awards, even though they realize the time delays inherent in the process. The motivation is to appear to support Congressional official goals.[35] Since 8(a) competitive procurements are reported as competitive procurements as well as awards to minority-owned firms, the agency totals reflect acceptance--and active support--of two official goals, i.e., to promote competition and to promote minority participation in the procurement process. In those cases where cost competition is present, this is a valid claim. Where cost competition is not present, the validity is somewhat more questionable.

Quasi-competition can also occur because of the type of contractual instrument used. More specifically, indefinite quantity contracts have no minimum, even though they must contain a maximum dollar amount. In other words, the Government is not obligated by the contract to purchase anything, but if it does so, it can only do so up to a certain dollar amount (i.e., the maximum). Since the maximum is also the award amount, the relationship between the award amount and the request amount can be ascertained. But in most cases, the agencies do not request cost data from the contractor until after the award is made. Prices are then negotiated through "task orders" or "task specifications." The rationale is that since the Government is not obligated to expend funds, it does not have to issue these subsidiary contractual

instruments if the price is too high.

The only problem with this logic is that the Government (more specifically, contract specialists) have very poor knowledge of fair and reasonable prices charged for comparable services in different locales. Thus, the use of indefinite quantity contracts usually leads to the Government paying a higher price for the service. Some contract specialists have attempted to establish a hypothetical level of service (e.g., 500 programmer hours or 200 senior social scientist hours) in the RFP which, in their estimation, will approximate the reserved amount and then require that offerors base their estimate accordingly. When this occurs, relative cost rankings can be determined. But as stated previously, the normal case is that no such cost estimates are called for in the RFP and, hence, provided by the respective offerors.

The position here is that indefinite quantity contracts for external analysis and management services should not be allowed. They were originally designed for supply items, not services. If the Government has no idea as to the level of effort required for services, then it should probably not be attempting to procure that service in the first place. There is sufficient flexibility in cost reimbursement contracts to allow for indefinite quantity and uncertainty.

In the rest of this thesis, the reader will be alerted as to the degree of quasi-competition present either because of 8(a) competitions or indefinite quantity contracts in which cost competition was not present. For example, in the sample set for small business set-asides, two of the contracts were indefinite quantity contracts. Cost competition was present for one of these awards, but not for the other. Missing

cost data due to quasi-competition equals 16.7 per cent. This does not significantly distort the analysis. At the other extreme are 8(a) procurement awards in which missing cost competition data due to quasi-competition is 80 per cent. Thus, 8(a) competition must be largely excluded from any further discussion regarding cost-efficiency.

There appears to be no more consideration to cost criteria in granting awards through small business set-asides than for granting awards to not-for-profit organizations on an exclusionary competitive basis. For small business set-asides, the relationship between the amount awarded and the cost class is not significant at the .05 level. In determining what does affect the amount awarded or which variable(s) explains best the basis upon which the amount awarded is actually made, there is a shift from noncompetitive awards in which the variables most important in explaining the amount actually awarded either reflected organizational characteristics or process characteristics (e.g., the requesting office). Furthermore, the relationships are as indicative of why the organizations have been awarded the contract as to why either larger or smaller amounts were actually received. For competitive awards, the variables best explaining how much is actually awarded may or may not be important in determining why the respective organizations received the award originally.

For reasons to be discussed later in this section, the primary emphasis here is to develop a methodology for determining what affects the amount awarded. Then, in the next section where nonexclusionary competitive awards are discussed, the attention will be primarily upon developing "tools" to determine why one organizational type vis-á-vis

another tends to receive a disproportionate share of the awards. Table 4-4 below summarizes for all exclusionary competitive methods the relative degrees of significance for relationships between the award amount and selected variables which were hypothesized to have some effect on the amount awarded.

Table 4-4: Significance Levels Between The Amount Awarded And Selected Variables For All Exclusionary Competitive Contracts Awarded By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services (N.A. = Not Applicable)

Variable	Procurement Method		
	8(a) Comp.	Small Bus. Set-Asides	To Not-For-Profit Org.
Interval Variables[1]			
employment	.36107	.16467	.23149
request amount	.00448*	.01965*	.18637
initial offer	N.A.	.00201*	.02945*
best-and-final offer	N.A.	.00017*	.22122
technical score	.25982	.04542*	.14261
best-and-final score	N.A.	.05531	.26139
Nominal or Ordinal Variables[2]			
organizational size	N.A.	.7082	.3778
minority ownership	N.A.	.8129	N.A.
8(a) status	N.A.	.8129	N.A.
minority type	N.A.	.8129	N.A.
woman ownership	.93	.9423	N.A.
contract type	N.A.	.9232	N.A.
description code	.0455*	.1344	N.A.
requesting office	.1848	.6383	N.A.
request quarter	.0807	.8514	N.A.
basic award quarter	N.A.	.5225	N.A.
cost class	N.A.	.7650	.2639
best-and-final cost class	N.A.	.9168	.6580
technical class	N.A.	.1474	N.A.
best-and-final technical class	N.A.	.1189	.3105

[1]Significance levels determined through simple regression analysis
[2]Significance levels determined through one-way ANOVA
*Denotes those that meet the .05 significance level criterion

As mentioned previously the primary factor affecting the amount

awarded to not-for-profit organizations is the initial amount offered. But it is not clear whether contractors would be held to their initial offers so closely if more awards had been made by utilizing that procurement method. In contrast, most 8(a) competitions have no cost competitions. The contract specialist, having little else upon which to base his/her negotiations, will rely upon the requesting office's original estimates and will attempt to actually award just less than this original amount requested. This is indicated by the regression formula ($\bar{Y}$ = - 66,232 + 1.4 X) and by the strength of the relationship (r^2 = .92). The effort to award less than the requested amount is normally made because after spending so much time and effort in the competitive process and in gaining SBA clearance, neither program officers nor contract specialists are enthusiastic about attempting to have the reserve amount increased. As Table 4-5 below indicates, the amount received by 8(a) organizations is also related to whether the award was made to secure data processing expertise or other types of external analysis services. Not only is the relationship significant, but the relationship is fairly strong.

Table 4-5: Mean Amounts Of HUD Awards Issued As A Result Of 8(a) Competitions In FY 79 And The First Quarter Of FY 80, By Category Of External Analysis And Management Services

Category of External Analysis and Management Services	Mean Amount	F	Sig.	eta^2
Data processing services	$384,507	10.930	.0455	.7846
Other external analysis and management services	$119,029			

As a contract specialist, this student had observed that awards for data processing services seemed, on the average, to be larger than for any other category of external analysis and management services. For noncompetitive awards, however, no significant relationship was discovered between the amount awarded and the category of external analysis and management services. The 8(a) firms are actively involved in the competition for these awards; and although the awards for data processing services are relatively few, they are lucrative when obtained. And it is hypothesized that it will be discovered in the next section that not-for-profit organizations are least likely to compete for data processing awards, even though they are eligible to do so. For now, it should be observed only that the relationship between the mean amounts awarded for data processing services and other external analysis services, respectively, through small business set-asides is not significant at the .05 level. Thus, it may also be discovered that the category of external analysis and management services may only be an important factor for 8(a) competitive awards.

For small business set-asides, Table 4-4 indicates that several variables may be influencing the amount actually awarded for external analysis and management services. These variables are as follows: 1) the request amount ($r^2 = .69$); 2) the initial offer ($r^2 = .96$); 3) the best-and-final offer ($r^2 = .99$); 4) the technical score ($r^2 = .55$); and 5) the best-and-final technical score ($r^2 = .63$). These variables were included in a multiple regression equation with the dependent variable being the amount actually awarded. The overall relationship was found to be significant at the .05 level.[36] However, only

three of the variables were determined to be important in explaining the variation in the amount awarded. These variables, the standardized beta coefficient, the F ratios, and the signficance levels, are reflected in the table below. Only the best-and-final offer is significant at the .05 level.

Table 4-6: Summary Table Of Important Variables In Explaining The Variation In The Basic Amount Awarded Through Contracts Issued In FY 79 And The First Quarter Of FY 80 To Purchase External Analysis And Management Services Through The Use Of Small Business Set-Asides

Variable	Standardized Beta Coefficients	F	DF	Sig. Level
Best-And-Final Offer	.99623	4696	3,1	$p < .05$
Request Amount	.12097	115	3,1	$p > .05$
Best-And-Final Score	.09804	45	3,1	$p > .05$

Generally, the amount actually awarded is only slightly less (i.e., 4 per cent) than that proposed by the contractor when submitting the revised proposal for best-and-final offers. The need to rely upon the contractor's proposal is necessitated by HUD's policy to award most contracts for external analysis and management services through the central office in Washington, D. C. Contract specialists working there have little conception of fair and reasonable costs which should be incurred by HUD for external analysis and management services. There is no time for the contract specialist to make an independent price analysis. When this is done, or if (such as with the Department of Energy) cost analysts are hired to provide price analysis, the resulting time-delays and effort required to get a contract executed become prohibitive.

The only price guide other than that established in the

competitive process that the contract specialist has is the original reserve amount in which program officers have estimated the cost of the service. When no other cost determination is available (i.e., when quasi-competition occurs), the contract specialist will use the request amount as a guideline in the negotiations. But when cost competition is available, the contract specialist is likely to rely upon the contractor's proposal. If there is best-and-final competition, the best-and-final offer will be used. If there is but one competition, the initial offer will be utilized. As indicated earlier in the discussion regarding the little consideration given to cost criteria, the offers (whether initial or best-and-final) are poor guides to determine the most reasonable prices to be charged to the Government. Contract specialists could save the Government a considerable amount by utilizing average prices for direct labor and overhead of all offerors participating in any one competitive process instead of the winner's proposal to use as a guideline in the negotiations. But as stated earlier, time pressures are too great to allow this practice. It is for that reason that the "next-best" solution of cost classes is being proposed in this thesis.

Cost-efficiency is no more of a factor in determining why organizations originally receive the contract than it is in influencing the amount actually awarded once an award winner is chosen. For all exclusionary competitive awards for external analysis and management services, technical proficiency is the primary factor in originally receiving the award. This can be ascertained by comparing the technical classes applicable to the award winners. Less reliance is placed upon those offerors included in the first technical class for small business set-asides than

for 8(a) competitions, but technical proficiency is the primary consideration in receiving an award through both of these competitive modes.

Whereas 100 per cent of the award winners for 8(a) competitions and for exclusionary competitive awards to not-for-profit organizations were judged to be in the first technical class, 83.3 per cent of the award winners of small business set-asides were judged to be in the first technical class and 16.7 per cent in the second class. A similar pattern is reflected in those competitive processes which had best-and-final competitions. However, only 33.3 per cent of those receiving the awards resulting from small business set-asides received the highest score in the initial competition and only 40 per cent received the highest score in best-and-final competition. Obviously, factors other than technical proficiency are considered to a degree not found in the other exclusionary competitive methods. Since proposed cost-efficiency is thought to be one of these factors, this implies that proposed cost-efficiency could be incorporated into the criteria for selecting award winners for all competitive procurements.

Through a detailed look at the data, it was found that in one of the small business set-aside awards, the primary criterion for issuing the contract was cost-efficiency, i.e., the organization receiving the award proposed to perform the service at the least cost. Further, investigation of the original survey sheets indicated this criterion was explicitly stated in the RFP. Further, cost <u>might have been</u> considered co-equally with technical proficiency in making two other awards, because one award was judged to be in the first cost class, and the other was judged to be in the second technical class and the first cost class.

The conclusion is that cost-efficiency is more of a factor in issuing the award for small business set-asides than for either of the other two exclusionary competitive methods. But as stated earlier, cost-efficiency is not, overall, a significant factor in explaining why contracts were originally awarded through small business set-asides (or any other exclusionary competitive method). Technical proficiency is still the overriding concern.

Because all competitive processes have initial competition, but some do not have best-and-final competitions, the technical score will be the variable used to reflect relative technical proficiency for the rest of this thesis vis-à-vis best-and-final technical scores. As Table 4-7 on the next page suggests, there is a statistically significant relationship between the two technical proficiency criteria which is quite strong ($r^2 = .82$), but they are different processes.

Table 4-7 also summarizes the initial search to determine which variables have a significant effect upon, help explain, or have association with the technical score. It should be noted that for small business set-asides, there is no discernible tendency for minority-owned, women-owned, and/or disadvantaged firms to receive higher or lower average scores. This implies that organizational sub-type is not a consideration in determining why these awards were originally made. It does not imply, however, that goals of equity in the procurement process are necessarily being achieved. As discussed earlier, for example, HUD small business set-aside awards for external analysis and management services are not being received by firms owned by racial minorities other than blacks, and the percentage of these awards received by women-owned

firms is relatively low (i.e., 16.7 per cent).

Table 4-7: Significance Levels Of Relationships Between The Technical Score And Selected Variables For All Exclusionary Competitive Contracts Awarded By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services (N.A. = Not Applicable; * = Sig. At .05 Level)

Variable	Procurement Method		
	8(a) Comp.	Small Bus. Set-Asides	To Not-For-Profit Org.
Interval Variables[1]			
best-and-final technical score	N.A.	.01737*	.00001*
employment	.05114	.06554	.34216
initial offer	N.A.	.05316	.11298
number of offers	.46024	.20584	N.A.
Nominal or Ordinal Variables[2]			
organizational size	N.A.	.6336	.8501
minority ownership	N.A.	.8128	N.A.
8(a) status	N.A.	.8128	N.A.
minority type	N.A.	.8128	N.A.
woman ownership	.0520	.8643	N.A.

[1]Significance levels determined through use of regression analysis
[2]Significance levels determined through one-way ANOVA

Since organizational type (or sub-type) is relatively unimportant in explaining the variance in the technical score, discussion of the factors affecting the technical score will be deferred until the next section, in which nonexclusionary competitive awards are discussed. It need only be said at this point that small business competitions are characterized by a high "state-of-the-art" in proposal writing and marketing. And as such, small business set-aside competitions can serve as a guide to the state-of-the-art characteristic of proposals submitted in nonexclusionary competitions. It should not be inferred, however, that a high state-of-the-art in proposal writing and marketing is indicative of overall benefits received by the Government in utilizing any given

procurement method.

Determining the overall utility of the respective exclusionary competitive methods is problematical. For 8(a) procurements, neither cost classes not cost ranks can be determined because of the influence of quasi-competition. For small business set-asides, comparison of the cost class and the technical class indicates that presence of a negative relationship (tau_b = - .408) between the cost class and technical class; i.e., the higher the technical class, the lower the cost class and vice-versa. A similar relationship can be determined when cost ranks are compared with technical ranks (tau_c = - .32). However, neither relationship is significant at the .05 level. Thus, the negative association between technical proficiency and cost-efficiency must remain a proposition, and although suspected, cannot with any certainty be said to exist.

In the next section, nonexclusionary competitive awards will be examined. Hopefully, all of the "tools" developed for noncompetitive awards or for exclusionary competitive awards to determine relative degrees of efficiency, maximization of proposed effectiveness, and overall utility to the Government will be applicable. In addition, it is hoped to determine with more clarity why some organizational types are better able to compete than others.

Nonexclusionary Competitive Awards

Who Get What

Behavioral and economic factors have been defined as those factors which influence an organization's ability to compete against other organizations when there is open entry into the procurement

process. Behavioral factors to be considered are the recognition of procurement opportunities and a willingness to respond to those opportunities. The primary economic factor of the most interest in this thesis is whether the organization can propose to provide the service at the least cost, i.e., whether potentially, at least, that organization is cost-efficient. The general hypothesis stated earlier was that for-profit and not-for-profit organizations were about equally aware of procurement opportunities to provide external analysis and management services and that there was little difference in either the ability or willingness of the two organizational types to respond to those opportunities. The hypothesis was based upon the view by authors such as Guttman and Willner that there was little practical distinction between the two organizational types.[37]

Although awareness, ability, and willingness are separate variables, Orlans suggests that these variables affect each other simultaneously.[38] For example, the larger the organization, the more resources that it can afford to muster for proposals. And yet, the more aware the organization is of opportunities, the more likely it will be to be able to grow and, thus, have the ability to submit proposals, which can be a very expensive undertaking (particularly for large procurements). Thus, the correct model is similar to that suggested by Benjamin Page and Calvin Jones in their study of receiprocal effects of policy preferences.[39]

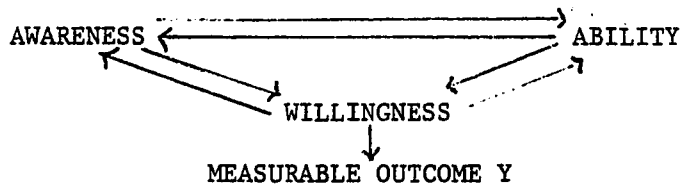
As Page and Jones suggest, to estimate the path coefficients, additional variables would have to be introduced which are exogenous to the process described above, which can be assumed to be unaffected by

the endogenous variables, and, yet, which have direct effects on some--but not all--of the endogenous variables.[40] For example, one such exogenous variable affecting ability might be one of the ratios used by students of finance to measure corporate health (e.g., the "acid test ratio"). Another example would be the exogenous variable of security, which affects willingness to compete. As Orlans states:

> A special value of applied and project institutes is precisely their responsiveness to the research market place; were they more secure, they would presumably become less responsive.[41]

For each one of the endogenous variables, there are probably multiple exogenous variables affecting them. The problem is not that statistical measures of these exogenous and endogenous variables could not be constructed; and Page and Jones' technique, though difficult, could probably be applied. Rather, the difficulty is one of scope. This information would have to rely upon original organizational data, not agency data. And this would be far too ambitious for the purposes of this thesis.

Figure 4-3: Non-recursive Relationship Of Awareness, Ability, And Willingness



The other strategy is to focus the attention upon the "measurable outcome." In Page and Jones' study, the measurable outcome is votes. In this thesis, the measurable outcome is the amount awarded by HUD to respective organizational types or sub-types for the procurement of external analysis and management services in FY 79 and the first

quarter of FY 80. The presence (or lack) of a statistical relationship between organizational type (or sub-types) and the cumulative outcome of awareness, ability, and willingness can thus be determined. If no significant relationship could be determined, it still could not be said that there was no difference in awareness, ability, and willingness; but it could be stated that either there was no difference, on the whole, in relative awareness, ability, and willingness, of the respective organizational types or that even if there might be relative differences in the effects of these endogenous variables, there are offsetting tendencies which produce, overall, similar outcomes.

This tactic has been used by Orlans. In Orlans' judgement, "nonprofit research institutes" and "educational institutions" have offsetting inherent tendencies which make them about equal, on the whole, in the entire process of submitting proposals. Orlans argues, for example, that nonprofit research institutes have a higher degree of staff insecurity than universities, thus tending to make the non-profit institutes more aggressive in seeking out procurement opportunities. On the other hand, this insecurity also leads to instability; and the universities--because of tenure--are often more able to attract higher-quality staff, have more financial stability, and experience less intellectual "isolation."[42]

A similar conclusion may be reached regarding the distribution of HUD procurement awards for external analysis and management services between for-profit and not-for-profit organizations in FY 79 and the first quarter of FY 80. Although the total amounts reflected in Table 4-8 on the next page indicate that for-profit organizations received a

substantially higher amount of these awards in FY 79 and FY 80, the difference in the mean amounts awarded is not statistically significant.

Table 4-8: Amounts Awarded On A Nonexclusionary Competitive Basis By HUD In FY 79 And The First Quarter Of FY 80 For External Analysis And Management Services To For-Profit And Not-For-Profit Organizations

Organizational Type	Amount Of Awards	Mean	N	DF	F	Sig.
for-profit	$12.6 M	$574,705	22	1,24	.54	.47
not-for-profit	$ .4 M	$102,948	4			
Conclusion: Accept H_o						

Thus, once it is decided to award the contract, it makes little difference whether or not an organization is for-profit or not-for-profit. Rather, the problem for not-for-profit organizations is that they are not as likely to receive the award in the first place. Two-way analysis of variance operations reflected in Table 4-9 generally support this conclusion. No other variables other than those reflected in Table 4-9 are thought to significantly improve the relationship between the amount awarded and organizational type. The only variable which, in conjunction with the type of organization, has a possible effect on the amount actually awarded is the category of external analysis and management services.

There is little doubt that the category of external analysis and management services has a significant impact upon the amount actually awarded through nonexclusionary competitive methods, for one-way analysis of variance indicates the presence of a statistically significant relationship between these two variables at the .02 level. The

average amount of HUD awards for data processing services is significantly higher than the average amount for other categories of external analysis and management services. Further, although two-way analysis of variance does not offer a high degree of assurance that the relationship is not occuring by chance (the significance level is .065), the relationship depicted in Table 4-10 indicates that not-for-profit organizations are not likely to receive awards by HUD to perform data processing services.

Table 4-9: Relationships Between Amounts Awarded On A Nonexclusionary Competitive Basis By HUD For External Analysis And Management Services To For-Profit Organizations And Not-For-Profit Organizations, By Selected Variables (* = .05 Sig. Level)

Basic Amount Awarded By:	Significance (Between Groups)	Significance (Interactions)	eta^2
Organizational Type And:			
category of external analysis and mgmt. services	.065	N.A.	.46
cost class	.229	N.A.	.23
best-and-final cost class	.139	N.A.	.38
technical class	.699	N.A.	.03
best-and-final technical class	.663	.806	.14
Category Of External Analysis And Mgmt. Services And:			
cost class	.114	.361	.35
technical class	.146	.802	.21
best-and-final cost class	.001*	.001*	.60

Why not-for-profit organizations tend to receive fewer (or no) awards for data processing services will be discussed later in this section when the variables of willingness, awareness, and ability are

examined. For the present, the purpose is to identify what affects the measurable outcome, i.e., the amount of HUD awards for external analysis and management services.

Table 4-10: Mean Amounts Awarded By HUD In FY 79 And The First Quarter Of FY 80 Through Nonexclusionary Competitive Contracts, By Category Of External Analysis And Management Services (In $000)

Organizational Type	Mean Amount Awarded By Category of Service ($000)	
	Data Processing Services	Other External Analysis And Management Services
For-Profit	1,370.3	203.4
Not-For-Profit	0	102.9
df = 2,23 F = 3.078 sig. level = .065 eta^2 = .211		

As Table 4-9 also indicates, the only other variables discerned by two-way analysis of variance which affected strongly the amount awarded were the combined effect of the category of external analysis and management service and the best-and-final cost class. The relationship is significant at the .001 level and moderately strong (eta^2 = .60).[43]

For contracts for data processing services, those organizations in the first cost class (i.e., least-cost) are granted higher award amounts. For other external analysis and management services, those in the first cost class are likely to receive the smallest awards. This is the first indication found in this thesis that cost-efficiency is actually a determinant in the amount awarded. The hypothesis is that if a contractor wishes to secure an award for providing data processing

services, that organization would do well to propose minimal (but realistic) prices in best-and-final competition. In contrast, the contractor wishing to secure an award for other external analysis and management services would do well, on the average, to offer a relatively high cost in best-and-final competition, hoping the bureaucracy will interpret this as a higher commitment to quality. It should be noted that this is not being recommended as policy, but only in recognition of a situation that exists.

For all categories of external analysis and management services procured by HUD, the amount proposed in best-and-final competition thus appears to be the primary determinant in how much will be actually awarded once the decision is made to make the award to that organization. This hypothesis can be tested by utilizing the multiple regression solution developed for small business set-asides. Through simple regression analysis, those variables with a statistically significant relationship to the amount awarded were located. These variables, their relative significance levels, and correlation coefficients are reflected in Table 4-11 on the next page. These variables were then included in a multiple regression equation to determine which of these variables was most important in explaining the variance in the amount awarded for external analysis and management services. Table 4-11 reflects the standardized beta coefficients obtained through multiple regression for those variables reflecting the greatest influence within the model. The F-test was then conducted to determine whether these beta coefficients were significant. The overall relationship is significant at less than the .01 level.

Table 4-11: Relationship Between Selected Variables And The Amount Awarded By HUD Through Nonexclusionary Competitive Contracts For External Analysis And Management Services To Organizations Participating In Best-And-Final Competition

Variable	r	Beta	df	F	Sig. of F	Simple Betas
Best-and-final offer	.998	1.27	4,10	27.2	$p < .01$	1.27
Request amount	.998	.28	4,10	11.8	$p < .01$	.41
Initial offer	.996	-.56	4,10	9.2	$p < .01$	-.49
Technical score	-.571	-.009	4,10	1.4	$p > .05$	N.A.
Best-and-final score	-.424	-.0009	4,10	.009	$p > .05$	N.A.

Only the best-and-final offer was important in explaining the amount awarded when best-and-final competition was conducted through small business set-asides. In contrast, the analysis indicates that three variables--the best-and-final offer, the request amount, and the initial offer--are important in explaining the actual amount awarded by HUD on a nonexclusionary competitive basis for external analysis and management services. It appears that the request amount is the beginning parameter in that program officials have a more substantial investment in time and effort in securing that amount than for any other type of procurement. Initial bids are offered which often exceed this amount. Program officials (who are usually the technical review panel members) then clue those offerors who do so and who have high initial technical scores to decrease cost offers during best-and-final oral discussions. These offerors reduce bids somewhat unrealistically far below the request amount. Then, in the process of negotiating the award, the contract specialist will be sympathetic to a small increase over the best-and-final offer in actually making the award (simple regression indicates that the amount of increase is likely to be less than .3 per cent).

This explanation would account for the direction and magnitude of the simple betas in Table 4-11 as well as their relative importance indicated by the standardized beta coefficients (i.e., Beta). But without examining the pattern of offers more closely, this must remain a qualitative assessment of what occurs. And this examination is outside the scope of this thesis.

For approximately 19 per cent of the awards, there was an initial competition, but no best-and-final competition. However, when only one competitive process occurs, the amount proposed is at once the initial offer and the best-and-final offer; and from the model, it can be assumed that the initial offer would thus take precedence over the request amount. This is consistent with experiential knowledge of the process. For those 30 per cent of awards with no cost competition (i.e., which are quasi-competitive), the contract specialist has little choice but to begin negotiations on the basis of the reserved amount.

As the discussion of other procurement methods has indicated, the analysis of noncompetitive awards differs fundamentally from competitive awards in that variables affecting the amount awarded through noncompetitive contracts are indicative of why the award is originally granted. For competitive contracts, technical scores received in either initial or best-and-final competition are likely to explain why awards are originally granted, although emphasis may occasionally be placed on other selection criteria (e.g., cost competition).

As this preliminary discussion has indicated, the measurable outcome is, to some degree, affected by the category of external analysis and management services. Other variables, however, are hypothesized

to be even more important in explaining the relative awareness, willingness, and ability of not-for-profit organizations, and these variables will be discussed below. The one consideration that can be disregarded is the sub-type of not-for-profit organizations; e.g., whether the not-for-profit organization is an educational institution or private non-profit research institute. The number of awards received by educational institutions and private non-profit research institutes through nonexclusionary competitive contracts for external analysis and management services are the same, and crosstabular analysis does not indicate any significant differences between the two. This tends to support Orlan's assessment referred to earlier.

In contrast, sub-types of for-profit organizations are not likely to manifest the same competitive characteristics. It was earlier hypothesized that minority-owned and women-owned firms would be adequately represented in awards made through a nonexclusionary competitive procurement method; hence, exclusionary policies were not required. The data does not support this proposition. Not one nonexclusionary competitive contract was issued by HUD in FY 79 or the first quarter of FY 80 for external analysis and management services to minority-owned firms, other "disadvantaged" firms, or to women-owned firms.

This finding will be discussed more at length in the conclusion. The search will be to determine that procurement method which is the most efficient, maximizes potential effectiveness, and promote official goals for equity in the procurement process. This section will serve to identify what some of the elements should be in implementing such a system. The argument here is that those elements should be based upon

empirical observations of relative degrees of awareness, willingness, and ability as well as relative standards of efficiency. Organizational differences in being able to obtain awards will be discussed prior to efficiency.

Awareness And Willingness

Lack of awareness can only partially explain the difference in the amount of awards received by for-profit and not-for-profit organizations, respectively, for external analysis and management services procured through nonexclusionary competitive methods. For lack of a better indicator, inclusion on the source list is being used to determine whether any one organizational type was aware of the procurement opportunity. As Table 4-12 below suggests, awareness is a factor. Not one competitive procurement process in which excluded not-for-profit organizations on the source list for the RFP received proposals from not-for-profit organizations. Not-for-profit organizations were, on the average, excluded 15 per cent of the time from knowing about the opportunity (i.e., 4 ÷ 26 = .15).

Table 4-12: Per Cent Of The Number Of Nonexclusionary Competitive Procurements In Which Not-For-Profit Organizations Participated, By Inclusion On Source List

Participated	Included On Source List		Total
	No	Yes	
No	100.0	50.0	57.7
Yes	0.0	50.0	42.3
Total	100.0	100.0	100.0
N	4	22	26
Kendall's tau_b = .37; sig. = .034			

In an attempt to discern why not-for-profit organizations were

not equally as aware of HUD opportunities to compete for procurement awards for external analysis and management services, crosstabulations were performed between the source code (i.e., whether not-for-profit organizations were sent the request-for-proposals), the description code (i.e., the category of external analysis and management service), and the requesting program office code. It was hypothesized that there would be a statistically significant relationship between: 1) the source code and the description code, and 2) the source code and the requesting office code. Neither of these relationships were significant at the .05 level.[44] Therefore, it may be assumed that not-for-profit organizations are given about the same degree of opportunity by the HUD program offices to compete for the different categories of external analysis and management services. If these variables are unimportant, any differences in awareness may be due to ignorance in how to be included on the source list.

The source list is a crucial determinant of who receives awards. Government agencies are supposed to advertise the availability of RFP's in the Commerce Business Daily, but this is often not done for external analysis and management services because of time constraints. At least at HUD, what normally occurs is that a source list is devised, the RFP is sent out, and then the RFP is advertised in the Commerce Business Daily. Except for contractors living in Washington, D.C., there is little time to respond to an RFP after it appears in that publication, after a request for the RFP is made to the agency in writing, and after the organization receives the RFP. Thus, being on the source list is important. But how this is done varies widely among agencies. At HUD,

this is a relatively simple process, but relatively few organizations are aware of it.

It is infeasible to expect that any publication could be any more effective on a national scope than the Commerce Business Daily. There are too many organizations involved, and the federal government is not known for time-efficiency regarding publications. Direct contacts with provider organizations is much more efficient. Further, there will never be any reform in this regard until contracts are issued regionally instead of nationally. The reason is that federal personnel in Washington, D.C., are not as aware as regional personnel as to the reputations and availability of outside organizations to perform external analysis and management services.

There is some interaction of awareness of opportunity and willingness to compete. For-profit organizations seem much more aggressive in ensuring that they are included on agency source lists and in obtaining RFP's. Further, not-for-profit organizations seem less willing to compete once an opportunity is identified. Forty-two per cent of the times not-for-profit organizations were invited to participate in HUD nonexclusionary competitions, but they did not do so due to a combination of awareness and willingness. In contrast, for-profit organizations participated in all HUD nonexclusionary competitions for external analysis and management services. Of the 58 per cent of all nonexclusionary competitive awards for which not-for-profit organizations didn't compete, awareness accounts for 27 per cent of the nonresponses and willingness accounts for 73 per cent of the nonresponses.

Probably the greatest "opportunity costs" incurred by not-for-

profit organizations is in not competing to provide data processing expertise. Not one offer was received by not-for-profit organizations in FY 79 and the first quarter of FY 80 to provide data processing expertise, even though not-for-profit organizations were invited to participate in 86 per cent of these awards. Given the amount of quantitative expertise in the universities, this lack of participation is surprising.

Nonetheless, awareness and willingness do not account adequately for the difference in the amount awarded to not-for-profit and for-profit organizations. Not-for-profit organizations responded to 58 per cent of all RFP's to purchase external analysis and management serivces other than data processing, but only received 13.5 per cent of the contract amounts resulting from these awards. Ability to compete appears to be a significant factor in explaining this difference in the amount awarded.

Ability to Compete

Throughout this thesis, it has become clear that all exclusionary criteria are based upon either organizational type (or sub-type) or organizational size. Thus, in order to determine whether exclusionary criteria need to be instituted, it becomes important to determine whether small organizations and/or certain organizational types are unable to compete effectively for nonexclusionary competitive awards.

Measured in terms of <u>amount</u>, small organizations actually received more through HUD nonexclusionary competitions for contracts to perform external analysis and management services than large organizations. However, one-way analysis of variance indicates that there is no

statistical difference in the mean amounts awarded to organizations of one size vis-à-vis another and that variables other than organizational size must be examined to explain the amount awarded.[45] Further, measured by the number of awards, large organizations received 69 per cent of all HUD awards through nonexclusionary competitions, and small organizations received only 31 per cent. It is hypothesized, however, that this relatively low percentage of the number of awards received by small organizations is due, overall, to a combination of awareness and willingness to compete instead of ability. But before this hypothesis can be tested, a valid indicator of ability must be developed.

Throughout the discussion regarding competitive awards, it has been illustrated that the proposals submitted in best-and-final competition will determine which organization will actually receive the award--and for how much. Cost proposals are only important in determining how much is to be awarded, but are not normally a factor in determining which organization is to receive the award. It is the best-and-final technical proposal--and the resulting best-and-final technical score--which determines which organization will receive the award for external analysis and management services.

However, the score received in best-and-final competition is usually only a marginal adjustment of the score received in the initial competition, and relative rankings do not change substantially. This is indicated in that the relationship between the technical rank and the best-and-final rank is significant at less than the .01 level, and the relationship is strong (tau_c = .45) and positive. Further, utilizing the initial technical score (for rank and class) instead of the best-

and-final score has the advantage that all organizations are scored in the initial competition; but some competitive processes do not include best-and-final competition, and even when best-and-final competition occurs, only the scores of organizations allowed to participate (on the basis of technical ranks established in the initial competition) are examined. Thus, technical proficiency as judged in the initial competition will be used here to judge relative abilities to compete. Further, since the number of offerors differs considerably from one competition to another, and since some review panels grade proposals relatively high or low, the technical class will be a better indicator than either technical scores or technical ranks.

Table 4-13 below indicates how all organizations competing for the nonexclusionary competitive awards being discussed in this chapter were judged in terms of technical proficiency. The number of RFP's represented (25) is one less than the number of nonexclusionary competitive awards, because one of the RFP's resulted in two of the awards drawn in the sample. There is no statistical relationship reflected between organizational size and technical proficiency as measured by the technical class; i.e., <u>when</u> they compete, small organizations, overall, are as able to do so as large organizations. This conclusion is supported by the fact that small organizations represent 27.6 per cent of the offerors, but 31 per cent of the winners of the awards.

Thus, the primary factors affecting the relative low percentage of awards to small organizations is awareness or willingness to compete. Outside of the Washington, D.C., Standard Metropolitan Statistical Area, it is hypothesized that awareness is the greatest factor. For

organizations within that area, willingness seems to be more important. The president of Prospect Associates, a successful small firm engaged in providing external analysis and management services within the Washington, D.C., area, has stated that her firm rarely competed in nonexclusionary competitions, believing that chances of obtaining the award were prohibitive when having to compete against large organizations.[46] At least regarding HUD competitions for external analysis and management services, this reluctance is ill-founded. But this kind of unwillingness by small organizations to compete against large organizations may be widespread.

Table 4-13: Per Cent Of Organizations Judged Most Technically Proficient In Nonexclusionary Competitions For HUD Awards To Perform External Analysis And Management Services In FY 79 And FY 80, By Organizational Size

Technical Class	Organizational Size		All Organizations
	Small	Large	
1 (most proficient)	30.2%	35.8%	34.2%
2	34.9%	32.7%	33.3%
3 (least proficient)	34.9%	31.5%	32.5%
All Classes	100%	100%	100%
N	63	165	228
significance level: .5892 Kendall's tau_c = - .048 conclusion: accept H_o			

It was hypothesized that minority-owned and women-owned firms would be the small organizations less likely to compete effectively. In the sample, not one award was obtained by minority-owned or women-owned firms. But analysis of the competitions for these awards indicates no statistical relationship between status as a minority-owned or woman-owned firm and ability, judged by technical proficiency. Although the

measure of association (tau_c = - .10) indicates a weak relationship in this regard, the significance level is only .28. However, one of the minority/women-owned firms judged to be the first class was also judged to be the most technically proficient in that particular competition, yet did not receive the award; and it was not clear from the contract file why this occurred. This is the only case discovered in this thesis where discrimination may have occurred, although this is not felt to be a widespread problem--either in the assigning of scores or the actual awarding of contracts.

There is also no discernible statistical relationship between the ability to be judged technically proficient and being a small not-for-profit organization. It was expected that this particular sub-type would find it difficult to compete against both large organizations and small for-profit organizations. This was not found to be true. There was no statistically significant difference in the ability of small not-for-profit organizations to compete against other organizational types or sub-types.[47] The small number of awards to small not-for-profit organizations can more likely be attributed to a lack of awareness of opportunity or an unwillingness to compete; and the high percentage (67 per cent) of small not-for-profit organizations being judged to be in the least-proficient class can be attributed to chance.

For small not-for-profits, there are institutional barriers to entering the competition for contract awards. If the organizations are primarily funded through federal grants or state appropriations, regulations may bar the use of these funds for proposal development. Even more restrictive are the attitudes of governing boards. In many cases,

they will not approve expenditures for proposal development, particularly if these expenditures are large. In contrast small for-profit organizations consider proposal development an essential and legitimate expenditure if those organizations are to compete to perform external analysis and management services. Even more detrimental for small not-for-profit organizations is awareness. They are rarely included on procurement source lists and may lack the information as to how they could be so included.

Overall, however, not-for-profit organizations tend to fare as well as for-profit organizations in the competition for technical proficiency. As Table 4-14 on the next page indicates, a weak tendency by small not-for-profit organizations to be judged the least technically proficient is more than offset by an equally weak tendency for large not-for-profit organizations to be judged in the most technically proficient class. Note that Table 4-14 only reflects those RFP's through which both for-profit and not-for-profit organizations competed. The data in Table 4-14 indicates that, measured by the technical class, for-profit and not-for-profit organizations have a comparable general ability to compete effectively; however, this general ability to compete is of little use if an organization is continuously ranked "second-best," for most awards are only granted to the best technical score. If best-and-final competition is held, the highest best-and-final score is the primary consideration. If not, the highest technical score received in the initial competition will determine which organization will receive the award.

The point here is that not-for-profit organizations lack an

"edge" in the competitive process which often prevents their obtaining the highest score. Of those awards in which there was best-and-final competition, 65 per cent of the winners had the highest score in best-and-final competition, and of this 65 per cent, 92.3 per cent were for-profit organizations and 7.7 per cent not-for-profit organizations. A similar pattern was found in the highest scores assigned to the initial competition.

Table 4-14: Technical Proficiency As Judged By Technical Class Of All Organizations Competing On A Nonexclusionary Basis For HUD Contracts To Perform External Analysis And Management Services

Organizational Type/Size	Technical Class						All Classes	
	1		2		3			
	N	%	N	%	N	%	N	%
For-Profit								
Small	10	(29.4)	13	(38.2)	11	(32.4)	34	(100)
Large	22	(31.0)	25	(35.2)	24	(33.8)	71	(100)
All, for-profit	32	(30.5)	38	(36.2)	35	(33.3)	105	(100)
Not-For-Profit								
Small	1	(16.7)	1	(16.7)	4	(66.7)	6	(100)
Large	13	(43.3)	10	(33.3)	7	(23.3)	30	(100)
All, Not-For-Profit	14	(38.9)	11	(30.6)	11	(30.6)	36	(100)
All Organizations	46	(32.6)	49	(34.8)	46	(32.6)	141	(100)

The "edge" normally lacking is thought to be proposal packaging and marketing. Proposals from for-profit organizations just appear more professional. For-profit organizations hire editors who police for grammatical errors. The typing (on quality bond paper) is of high quality and uniform in design. Resumes are tailored for each proposal. Finally, all proposals have jackets with company logos and are in the format requested by the bureaucracy. In contrast, the proposals received from

certain types of not-for-profit organizations (particularly universities and small not-for-profit organizations) are likely to appear quite amateurish by comparison. Not-for-profit organizations are also not as likely to rehearse for oral examinations in best-and-final competition. The large nonprofit research institutes, however, place as much stress on packaging and marketing as the for-profit organizations, and it is due to their influence that the relationship between organizational type and the highest best-and-final score is only significant at the .1121 level.

The overall assessment is that the preliminary hypothesis was in error. That is, the differences in the amounts awarded to not-for-profit organizations and for-profit organizations, respectively, can primarily be explained by behavioral factors which, overall affect the awareness, willingness, or ability to compete. Ramifications of this assessment will be discussed in the conclusion. But unless the Congress expresses a desire to grant not-for-profit organizations special exclusionary status, this organizational type will probably continue to suffer competitive disadvantages. The quandry is that by granting not-for-profit organizations exclusionary status, the Congress would be weakening its own official goal to promote open competition. It is to that official goal which the focus of the thesis now returns.

Other Official Goals

It has been determined that nonexclusionary competitive procurement methods as instituted by HUD are not effective in furthering the

official goal to promote minority participation in the awarding of contracts for external analysis and management services. The purposes of this section will be to briefly ascertain how effective nonexclusionary competitions are in furthering other official goals. Then, in the conclusion, the relationship between conformance to official goals and the distribution of awards between for-profit and not-for-profit organizations will be examined.

As discussed earlier in this thesis, one official goal of the Congress is to promote more competition in the procurement process. This goal is related to, but yet separate from, the official goal to promote efficiency. Rather, the primary motivation behind the goal of promoting competition is "fairness." That is, open competition supposedly allows more organizations to compete and diminishes the possibility of undue influence in awarding the contract. Certain indicators have been developed in relation to small business set-asides to provide a comparative base for ascertaining the effectiveness of nonexclusionary competitions to promote competition. These are: 1) the amount of time allowed for the offerors to develop viable proposals, 2) the number of sources sought in the RFP to provide the service, and 3) the number of offers received.

As Table 4-15 indicates, nonexclusionary awards promote less competition than small business set-asides, but considerably more than 8(a) competitions. Again, there is a direct association between the amount of time allowed for RFP's and the number of offerors; and non-exclusionary awards allow for less time to respond to the RFP than small business set-asides, and hence, receive fewer offers. On the average,

the number of sources sought is slightly more through nonexclusionary awards than small business set-asides. But the most important criterion is the number of offers received.

The overall assessment is that no competitive procurement method utilized by HUD to secure external analysis and management services is particularly effective in promoting competition. Even 16 offerors is quite low. And competitive methods are effective in promoting competition only when compared with noncompetitive procurements. Further, the relatively more offers submitted in response to small business set-asides indicates that there is no necessary relation between exclusivity and the promotion of competition.

Table 4-15 Selected Criteria Of Conformance To The Official Goal Of Promoting Competition, By Procurement Method

Criterion	8(a) Comp.	Small Bus. Set-Asides	Nonexclusionary Awards
RFP time (mean)	19 days	42 days	31 days
Number of Sources (mean)	3.6	140	149
Number of Offers (mean)	2.6	16	10

The other official goal is to promote efficiency. In the past, it has been assumed that open competition is more efficient than noncompetitive procurement methods. "Tools" or indicators of efficiency which have been developed in this thesis include: 1) time to execute the contract, 2) savings to the Government through uncertainty, and 3) the cost class. Each will be discussed in turn, and comparisons will be made with other procurement methods when applicable. No comparison will

be made with exclusionary awards to not-for-profit organizations, because this method has since been discontinued.

It should now be clear that no competitive procurement methods utilized by the federal government can be truly efficient. The Code of Federal Procurement Regulations prevents such efficiency by mandating an incredible morass of procedures; e.g., pre-award audits and multiple clearances. For nonexclusionary awards, the average length of time at HUD to execute a contract for external analysis and management services is 157 days. This is more efficient than for small business set-asides (189 days) or for 8(a) competitions (204 days), but does not compare favorably with modifications (55 days), nonexclusionary noncompetitive awards (95 days), or even exclusionary noncompetitive awards to 8(a) organizations (122 days).

Because of the extra time and effort by personnel to execute competitive contracts, the average costs for competitive contracts is much higher than for nonexclusionary noncompetitive contracts and modifications. It is hypothesized that the marginal cost of any one contract is in direct proportion to the amount of time needed to execute it. Data is lacking to prove this hypothesis, however.

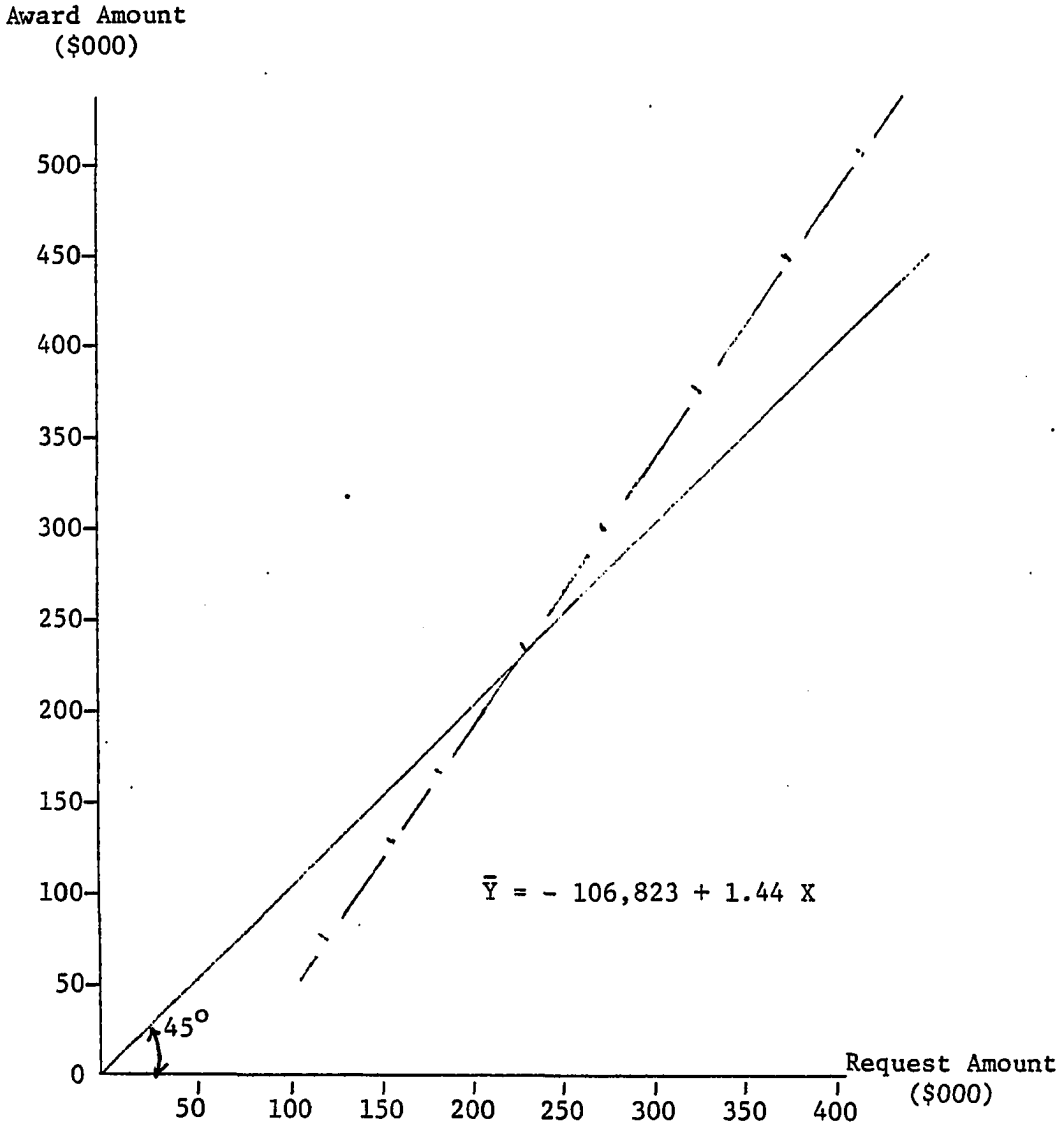
Lacking this criterion of cost efficiency, the criterion applicable to all procurement methods is the potential savings to the Government through uncertainty. For example, the regression line depicting the relationship between the amount awarded and the amount initially reserved for HUD nonexclusionary competitive contracts for external analysis and management services is: $Y' = - 106,823 + 1.44\ X$. The relationship is significant at the .0001 level and quite strong ($r^2 = .995$). As

Figure 4-4 on the next page suggests, this implies that the Government obtains significant savings for awards less than $250,000, but begins to incur negative savings thereafter. It is hypothesized in the thesis that organizations incur significantly more costs in the competitive process for larger awards (e.g., more research for statistics to be used in the proposal) and attempt to have the Government absorb this cost.

Comparison with all other procurement methods could be accomplished by plotting all other regression lines in Figure 4-4, but six regression lines might be somewhat confusing. Therefore, the regression equations will be used to determine the estimated award amount when $100,000 and $300,000 is requested. These two "critical points" appear to be the best guides as to relative efficiency for small and large awards, respectively. The equations for each procurement method, the estimated award amounts at each of the critical points, and the resulting ranks are reflected in Table 4-16 on a following page. Note that nonexclusionary competitive awards are the most efficient procurement method for small awards, but one of the least efficient for larger awards.

Another criterion of cost-efficiency developed earlier in this thesis is the cost class, but it is only applicable for small business set-asides and nonexclusionary competitive awards. This is the cost class. For nonexclusionary competitive awards, there is a higher degree of quasi-competition present (23 per cent vis-à-vis 17 per cent) than for small business set-asides. When organizations could be classified into cost classes, nonexclusionary competitive methods resulted in 26.9 per cent of the awards going to the most cost-efficient, 38.5 per cent of the awards being received by organizations in the second cost class,

Figure 4-4: Relationship Between The Award Amount And Request Amount For Nonexclusionary Competitive Awards For External Analysis And Management Services



and 11.5 per cent in the third cost class. This does not appear to by any improvement over small business set-asides, in which 50 per cent of the awards were received by organizations in the first class, zero in the second class, and 33.3 per cent in the third class. It would probably not be too much of a distortion to add the percentages of contracts awarded through quasi-competition to the third class of both.

Table 4-16: Values Of The Estimated Award Amount At Critical Points In The Request Amount, By Procurement Method (Note: Rank 1 = Most Efficient)

Procurement Method	Small Awards		Large Awards	
	Y' at X = $100,000 ($)	Rank	Y' at X = $300,000 ($)	Rank
Modifications[1]	100,000	4	300,000	3
Nonexclusionary Noncompetitive[2]	102,290	5	300,290	4
8(a) Noncompetitive[3]	106,203	6	176,203	1
8(a) Competitive[4]	74,768	2	356,768	6
Small Business Set-Asides[5]	94,381	3	238,381	2
Nonexclusionary Competitive[6]	37,177	1	325,177	5

[1]
[2]Regression Line same as 45° line
[3]$Y' = 3,290 + .99\ X$
[4]$Y' = 71,203 + .35\ X$
[5]$Y' = -\ 66,232 + 1.41\ X$
[6]$Y' = 22,381 + .72\ X$
$Y' = -\ 106,823 + 1.44\ X$

As has been discussed earlier, cost-efficiency is almost always disregarded in making the award through small business set-asides, but at least cost-efficiency does not seem to be a detriment in receiving the award. For nonexclusionary competitive awards, there is a negative association ($tau_b = -\ .47$) between the best-and-final cost class and the

best-and-final technical class. The relationship is significant at the .03 level. The relationship implies that for nonexclusionary competitive contracts, the most cost inefficient are most likely to receive the award, because earlier analysis has indicated that those in the first best-and-final technical class are the most likely to receive the award.

Thus, it can be stated that open competition in Government procurement for external analysis and management services normally encourages inefficiency. The disturbing tendency discerned here is that with all of its inefficiency, the nonexclusionary competitive method is probably the most efficient for all awards less than $250,000. Its advantage is that it probably does much to maximize potential effectiveness. But with expending so much time and effort to execute the contract, the bureaucracy has few resources to commit to effective program evaluation. Thus, technical proficiency measures the amount of promises to perform, not performance. And often, promises are unfulfilled. In the next chapter, it will be explained why reforming the procurement system to place more effort on evaluation (vis-à-vis process) would have a significant impact upon the distribution of procurement awards to organizational types and sub-types.

NOTES FOR CHAPTER IV

[1]There are two primary means by which competitive procedures may be implemented. The first is through formal advertising and the issuance of an "Invitation for Bid." This procedure is only applicable when the good or service can be defined very specifically and is not appropriate for the procurement of external analysis and management services. The second procedure is through the issuance of a "Request For Proposals" (RFP). An RFP does not have to contain the level of specificity of an Invitation For Bid and does not have to utilize formal advertising. Since RFP's are almost always used to secure external analysis and management services, the scope of this thesis will be restricted to that competitive process.

[2]The only exception is for public agencies which employ handicapped individuals "...for not less than 75 per centum of the man-hours required for the production or provision of the commodities or services." Source: 41 CFR 1-1.706-9. This exception is so restrictive that it can be safely disregarded in this thesis.

For the illegality of issuing contracts by methods other than that allowed in the Code of Federal Procurement Regulations, see: 41 CFR 1-1.403.

[3]If the involvement of the agency is not to be "substantial," and if the Government is to receive no direct benefit from the service, the Federal Grant And Cooperative Agreement Act of 1977 mandates that the services must be acquired through assistance instruments. See: Government Affairs Committee, United States Senate, Senate Report No. 95-449 (September 22, 1977), pp. 1-8.

[4]This decision was made by Dr. Taylor, contracting officer, while this student was employed at HUD.

[5]The student is indebted to Professor Ted Hebert of the University of Oklahoma for suggesting the concept of the cost class, technical class (see below), and their comparative possibilities (see below).

[6]The regression line is: $\bar{Y} = 48{,}034 + .62884\ X$. The significance level is .01023, and $r^2 = .3996$.

[7]The regression line between the award amount and the initial amount offered is $\bar{Y} = 86{,}309 + .18143\ X$; the significance level is .02925; and $r^2 = .28828$. The regression line between the award amount and the best-and-final offer is: $\bar{Y} = 101{,}761 + .07934\ X$; the significance level is .22122; and $r^2 = .05457$.

[8]The weighted average is $144,231.

[9]The overall relationship is significant at the .02925 level; and r^2 = .71187.

[10]The regression line is $\bar{Y}$ = 114,406 - 17.96592 X; the significance level is .23149; and r^2 = .04995.

[11]The regression line is $\bar{Y}$ = 151,449 - .59.363 X; the significance level is .20549; and r^2 = .06226.

[12]The scatter plot indicates that the relationship is not linear, thus, regression analysis is not appropriate.

[13]The regression line is $\bar{Y}$ = 81.28351 - .00786 X; the significance level is .34216; and r^2 = .01560.

[14]According to Kirkpatrick, Kendall's tau_c is most appropriate as a measure of association with ties on ranks and when the number of columns and rows differ. For a discussion of tau_b and tau_c and their comparability, see: Samuel Kirkpatrick, Quantitative Analysis of Political Data (Columbus, Ohio: Charles E. Merrill Publishing Company, 1974c.), p. 47.

[15]In deciding how much to award non-profit providers of mental health services, the Oklahoma Department of Mental Health considers criteria of both effectiveness and efficiency. This serves to indicate that the concept of considering both criteria in the procurement process is not unrealistic.

[16]Exclusionary competitive awards are also allowed for "labor surplus areas" as identified by the Department of Labor. These are areas of concentrated unemployment, underemployment, or labor surplus. Source: 41 CFR 1-1.801. Preference in these awards is to be made for small businesses, but if an insufficient number of bids or offers from small businesses are forthcoming, large businesses may be utilized. Source: 41 CFR 1-1.802-2(e). This reliance upon large businesses for labor-surplus awards is rare, however.

Labor-surplus "set-asides" are not important for the purposes of this thesis. HUD issued no labor-surplus set-asides in FY 79. Source: Office Of Management And Budget, Special Analysis 5: Federal Labor Surplus Preference Over $10,000 By Executive Department And Agency, By State By Product/Service, Fiscal Year 1979 (Washington, D.C.: Office of Federal Procurement Policy, Office Of Management And Budget, 1980), p. 81. In addition, none were identified in the sample for the first quarter of FY 80.

[17]41 CFR 1-3.1202(3)(e).

[18]The figure for the annual gross receipts is taken from an

attachment to RFP's issued by the Department of Human Services (formerly HEW). Source: Department of Human Services, "RFP No. NIA 80-007, Mimeographed. The figure for the number of employees has been taken from: Minority Contracting Reports, vol. 2, no. 2 (January 25, 1980), p. 5.

[19]For acknowledgement of this criticism by the SBA, see: Federal Register, vol. 45, no. 48 (Monday, March 10, 1980), p. 15443.

[20]Minority Business Reports, vol. 2, no. 2 (January 25, 1980), p. 5

[21]Ibid.

[22]"Revision To Method Of Establishing Size Standards...," op. cit., p. 15442.

[23]Ibid, p. 15450.

[24]Ibid.

[25]Conversation with Ms. Louise Thompson, Small Business Administration (Oklahoma City Office) on February 18, 1981.

[26]Source: Office Of Management And Budget, Special Analysis 3: Federal Contract Awards Over/Under $10,000, Minority And Small Disadvantaged Business, By Executive Department And Agency And By State, Fiscal Year 1979 (Office Of Federal Procurement Policy, Office Of Management And Budget, 1980), p. 2.

[27]The student wishes to thank Professor Ted Robinson of the University of Oklahoma for suggesting the term "over-represenation."

[28]For small business set-asides, the regression line is $\bar{Y} = 86.6 + 1.8\ X$; the significance level is .00187; and $r^2 = .90185$. For 8(a) competitive awards, $\bar{Y} = 181.5 + 51\ X$; the significance level is .07013; and $r^2 = .57$.

[29]The relationship between competitive time and the number of offerors for small business set-asides is significant at the .04367 level; $r^2 = .56$; and the regression equation is $\bar{Y} = -25.9 + 5.22\ X$. The relationship between competitive time and the number of offerors for 8(a) competition is not significant (i.e., the significance level is .37).

[30]The regression line is $\bar{Y} = -4.19 + .49\ X$; the significance level is less than .03; and $r^2 = .69$.

[31]The regression line is $\bar{Y} = 3.98 - .07\ X$; the significance level is .12; and $r^2 = .41$.

[32]For 8(a) competitive procurements $\bar{Y} = -66,232 +$

1.40596 X; r^2 = .925; and the significance level is less than .005. For small business set-asides $\bar{Y}$ = 22,381 + .7157 X; r^2 = .69; and the significance level is less than .02.

[33]The term "quasi-competitive" is my own. No term in the literature seems to be adequate for a situation in which cost competition is not present, for example.

[34]Conversation with Mr. Kenneth Dosier, who is a contracting officer at HUD, in early 1980.

[35]Ibid.

[36]The overall relationship may be summarized as follows:
Multiple R: .99997
R^2: .99973
Standard Error: 584.8
DF (Greater Mean Square): 3
DF (Lesser Mean Square): 1
F: 4998.17069
Critical value of F for a significance level of .05: 216
Critical value of F for a significance level of .01: 5,403

[37]Guttman and Willner's book is primarily concerned with whether outside services should be procured at all. The authors attack for-profit organizations and not-for-profit organizations with equal zeal and see little difference between the two organizational types. For example, they state:

> ...the legal distinction (between the two types of organizations) is often far sharper than the practical one. Nonprofits are no less private than profit-making corporations ...If profit-making firms seek profits, nonprofits are no less interested in survival and growth.

Source: Guttman and Willner, op. cit., p. 19. Guttman and Willner's position will be examined in the conclusion.

[38]Orlans is primarily interested in the competitive relationship between the universities and "nonprofit research institutes," but the thrust of his argument is applicable to the competitive relationship between for-profit and not-for-profit organizations. In particular, see: Orlans, op. cit., pp. 123-126, 141-144, and 149-152.

[39]Benjamin I. Page and Calvin C. Jones, "Reciprocal Effects of Policy Preferences, Party Loyalties and The Vote," American Political Science Review, vol. 73, no. 4 (December, 1979), p. 1079.

[40]Ibid, pp. 1079-1080.

[41]Orlans, op. cit., p. 168.

[42]Orlans, op. cit., pp. 141-159.

[43]The relationship is summarized in the following table:

Source of Variation	F	Sig. of F
Interactions	15.6	.001
Between Classes	18.2	.001

[44]For the relationship between the source code (2 categories) and the description code (2 categories), tau_b = - .01849 and the significance level is .4632. For the relationship between the source code (2 categories) and the requesting office (8 categories), x^2 = .6563.

[45]One-way ANOVA was used to test the relationship between the amount awarded and organizational size. With 1 (between groups) and 24 (within grous) degrees of freedom, F = 1.232; the significance level is .2781; and eta^2 = .0488.

[46]Conversation with Ms. Laura Henderson, President of Prospects, Inc., in early 1980.

[47]The relationships may be summarized as follows:

Relationship Between Technical Class And:	N	tau_c	Sig. Level	Conclusion
Small not-for-profit status (categories = small not-for-profit organizations and all other organizations) Note: For only those RFP's in which not-for-profit organizations compete	141	-.06	.62	accept H_o
Profit motivation as a small organization (categories = small not-for-profit organizations and small for-profit organizations) Note: For only those RFP's in which small not-for-profit organizations competed	40	-.17	.44	accept H_o

CHAPTER V*

CONCLUSION

Qualitative Assessment of the Research Effort

There have been three primary official goals mandated by the Congress which have been identified in this thesis: 1) to promote competition in the procurement process, 2) to promote minority participation in the procurement process, and 3) to maximize efficiency in the procurement process. In order to achieve these goals, different procurement methods have been developed. The procurement method which is adopted, in turn, may have a substantial impact upon the distribution of awards between organizational types and sub-types. This impact can be minimal (in the case of nonexclusionary competitive awards, in which behavioral and economic factors explain the difference in awards to organizational types and sub-types) or substantial, being the sole parameter upon which awards are distributed by organizational type (e.g., small business set-asides). It is this nexus between the official goal and the distribution of awards to the respective organizational types and sub-types which has directed this study toward the procurement method instead of the individual competitors.

The first research question posed at the beginning of this

---

*All notes are located at the end of the respective chapters. Notes for Chapter V are located on page 206.

thesis was as follows: If the decision has indeed been made that more of the work of Government is to be performed outside of the Government, then will for-profit or not-for-profit organizations benefit the most in an atmosphere of a reasonable degree of competition for HUD procurement awards for external analysis and management services--and why? Reasonable competition was operationally defined as being a formal process of selection in which more than one organization is considered, in which the criteria for selection are objective and known to all competitors in advance (normally through the use of an RFP), and in which technical proficiency or cost efficiency, or both, are among the criteria of selection.

There were four procurement methods utilized by HUD in FY 79 and the first quarter of FY 80 which met the conditions of a reasonable degree of competition. However, one method--exclusionary competitive awards to not-for-profit organizations--is not legal, will not be utilized in the future, and thus will have no further impact upon the distribution of procurement awards between for-profit and not-for-profit organizations. In addition, two of the other methods--small business set-asides and 8(a) competitions--exclude not-for-profit organizations in being eligible to compete. Only one method, nonexclusionary competitive awards, satisfies both the parameter of exhibiting reasonable competition and the parameter of allowing all organizational types to compete.

Not-for-profit organizations received only 3.1 per cent of the total amount awarded by HUD on a nonexclusionary competitive basis to procure external analysis and management services in FY 79 and the first

quarter of FY 80, but received 15.4 per cent of the number of awards. The reason for the disparity between the per cent of the total amount received and the per cent of the total number of contracts awarded is an unwillingness by not-for-profit organizations to compete for contracts to provide data processing services, and these contracts are, on the average, awarded for larger amounts than other external analysis and management services.

For all categories of external analysis and management services, it has been determined that willingness to compete is a factor in the relatively small amount of awards received by not-for-profit organizations through nonexclusionary competition, but the behavioral factor of awareness is also important. Fifteen (15) per cent of the nonexclusionary competitions did not include not-for-profit organizations on the source list, and a high association was found between whether not-for-profit organizations submitted proposals and whether they were invited to submit proposals.

More important than either willingness or awareness is the behavioral factor of an ability to compete. Not-for-profit organizations participated in 42 per cent of the nonexclusionary competitions, but only received 15 per cent of the awards. For data processing services, two factors were found to be important in determining which organization received the award: 1) the best-and-final technical class, and 2) the best-and-final cost class. But overall, only the technical score received in best-and-final competition (or if no best-and-final competition, the technical score received in initial competition) was important in determining which organiztion would receive the award.

It was determined in the analysis that there was little difference between for-profit and not-for-profit organizations in their ability to be classified in the highest technical class (i.e., containing the first third of the organizations judged to be the most technically proficient), but not-for-profit organizations had a tendency to not be assigned the highest technical score in both the initial competition and the best-and-final competition. This was attributed to a reluctance by small not-for-profit organizations and universities to devote adequate resources to proposal marketing and rehearsals for oral reviews conducted during best-and-final competition. It was hypothesized, based upon experience, that the large "nonprofit research institutes" did not suffer from this liability. This would explain why the overall statistical relationship between the high score and organizational type was a weak one.

Overall, the assessment is that not-for-profit organizations will continue to suffer competitive disadvantages because of low levels of awareness, willingness, or ability. It is hypothesized that Orlan's observation regarding relative levels of staff insecurity in the large nonprofit research institutes and universities can be adapted to for-profit and not-for-profit organizations.[1] That is, there is considerably more staff insecurity in those small for-profit organizations (or divisions of larger for-profit organizations) engaged primarily in contracting with the Government for external analysis and management services. This insecurity increases both the willingness to seek out opportunities and to respond to them. But response causes significant organizational resources to be committed, and those employee-

entrepreneurs who do not win contracts are likely to become unemployed. Small not-for-profit organizations and educational institutions are more likely to be direct service providers, have sources of funding other than Government contracts, and experience less staff insecurity. This results in less awareness, willingness, and ability to compete (particularly "at the margins" in best-and-final competition). But more research needs to be conducted before this hypothesis can be verified.

The second research question posed at the beginning of this thesis was whether a reasonable degree of competition still exists for HUD procurements of external analysis and management services. In FY 79 and the first quarter of FY 80, nonexclusionary competitive awards accounted for approximately 41 per cent of the total amount awarded by HUD to perform external analysis and management services. It was not possible to determine with confidence the procurement methods utilized for contracts included in the sample which were awarded prior to FY 79. It is hypothesized, however, that the percentage of the total amount awarded on a nonexclusionary competitive basis has declined.

The myth that competition automatically results in efficiency has prevented too much reliance being placed upon noncompetitive methods. But as the last chapter indicated, nonexclusionary competitive contracts are only more efficient for the small award amounts and are much less efficient than exclusionary competitive methods for larger award amounts. And this does not take into account the high average costs associated with all competitive procurement methods due to overregulation of the procurement process. Also, there was evidence that nonexclusionary competitive methods placed even less importance upon

cost competition than small business set-asides. In fact, for those organizations receiving contracts awarded on a nonexclusionary competitive basis, a negative association was discovered between technical proficiency and cost efficiency; i.e., the award most often was received by those organizations being among the most technically proficient and the most cost inefficient.

If a decline in the relative proportion of nonexclusionary competitive awards has indeed occurred, it is due to the influence of exclusionary procurement methods which have been designed to promote increased participation in the procurement process by small business concerns (both minority-owned and nonminority-owned). It has been hypothesized that small business concerns are more reluctant to compete against large organizations than against each other. Further, the number of nonexclusionary competitive contracts awarded by HUD in FY 79 and the first quarter of FY 80 to minorities was minimal. Both of these factors--reluctance by small business concerns to compete in open competition and the negligible proportion of awards received by minority-owned firms--have had the effect of placing pressure upon the bureaucracies to decrease the percentage of external analysis and management services procured through nonexclusionary competitions and to increase the percentage of services procured through exclusionary competition.

The most important procurement method (in terms of award amounts) devised to increase participation by small business concerns (both minority-owned and nonminority-owned) is small business set-asides. The research has indicated this procurement method is relatively effective in promoting competition. Further, unlike nonexclusionary

competitive competitions, a substantial amount (i.e., 33 per cent) awarded through small business set-asides by HUD are received by minority-owned firms. Thus, small business set-asides satisfy the official goals of the Congress to promote competition and to encourage participation in the procurement process by small business concerns and by minority-owned firms.

It has been indicated in this thesis that a certain degree of competition also is present for noncompetitive awards. The Government is not the only purchaser of external analysis and management services; and the contractor is only one of many providers of external analysis and management services.[2] Therefore, it is probably more useful to rephrase the first research question as follows: If the decision has indeed been made that more of the work of Government is to be performed outside of Government, then will for-profit or not-for-profit organizations benefit the most in the competition for HUD contracts awarded on a nonexclusionary basis to perform external analysis and management services--and why? Similarly, the second research question posed at the beginning of this thesis--i.e., whether a reasonable degree of competition still exists--can be modified to determining whether nonexclusionary competition still exists. The hypothesis is that the need to conform to official goals will cause bureaucracies to rely less upon all nonexclusionary procurement methods and more upon exclusionary methods. It will be shown that this shift will have a significant impact upon the distribution of procurement awards between for-profit and not-for-profit organizations.

In addition to nonexclusionary competitive awards, two other

procurement methods which are not exclusionary by organizational type are modifications and nonexclusionary noncompetitive awards. Almost as much was awarded by HUD in FY 79 and the first quarter of FY 80 through a combination of modifications and nonexclusionary noncompetitive awards to procure external analysis and management services as through nonexclusionary competitive methods.[3] It has been hypothesized that the relative shares received by for-profit and not-for-profit organizations of the amounts awarded through modifications will approximate the relative shares awarded through the basic contracts. Thus, shifts in the relative shares received by the respective organizational types will depend upon the changes in the relative shares awarded through basic awards.

Nonexclusionary noncompetitive awards result primarily from informal relationships established between program officials and representatives of the organizations engaged in providing external analysis and management services for HUD. Not-for-profit organizations compete quite effectively for nonexclusionary noncompetitive contracts awarded by HUD.

Similar to nonexclusionary noncompetitive awards, exclusionary noncompetitive awards to 8(a) organizations result to some degree from informal relationships established between the contractor and program officials. However, the research implies that these relationships are not as close as those existing between program officials and recipients of nonexclusionary noncompetitive awards; further, competition for noncompetitive 8(a) contracts is probably intense. Establishment of informal relationships is also a factor affecting the distribution of

exclusionary competitive awards to 8(a) organizations. This is indicated by the relatively few sources sought for these competitions and the relatively few offers received. However, technical proficiency is the most important factor in selection once offers are received.

The total amount awarded on an exclusionary basis to 8(a) organizations (both competitively and noncompetitively) is negotiated before the fiscal year by HUD and the SBA. The research has indicated that the amount targeted for 8(a) organizations is to increase. It is expected that there will be a shift from the total percentage of contract amounts awarded on an nonexclusionary noncompetitive basis to exclusionary awards to 8(a) organizations. The reason is that nonexclusionary noncompetitive awards are not in compliance with either the official goal to promote competition or the official goal to promote participation by minorities in the procurement process. Both procurement methods which limit eligibility to 8(a) organizations promote the official goal to promote participation by minorities in the procurement process. Thus, it is expected that the relative percentage awarded on a nonexclusionary noncompetitive basis will decline as a direct result of more being targeted for 8(a) awards.

It is not clear from the research whether less reliance upon nonexclusionary noncompetitive awards will result in more amounts being awarded on an exclusionary basis either competitively or noncompetitively. Exclusionary competitive awards to 8(a) organizations satisfy both primary goals to promote competition and minority participation, whereas exclusionary noncompetitive awards promote minority

participation, but are in direct conflict with the goal to promote competition. However, the authority to issue 8(a) contracts competitively is vague, and some contract officers refuse to utilize this procurement method.

The increased reliance by HUD upon small business concerns has been accompained by an increase in reliance upon minority-owned firms. The percentage of contracts awarded to minority-owned firms by HUD to perform external analysis and management services increased from 11.5 per cent prior to FY 79 to 30.7 per cent in FY 79 and the first quarter of FY 80. The official goal to award a higher number of contracts to minority-owned organizations is complementary to the increasing tendency to award contracts on an exclusionary basis to small business concerns, because most minority-owned firms competing for HUD procurement awards are small organizations.

It is therefore expected that there will be a shift from all nonexclusionary procurement methods to exclusionary ones limited to small business concerns. As the discussion below indicates, this will accelerate the decline of not-for-profit organizations as participants in the competition to receive HUD contracts to perform external analysis and management services. As Table 5-1 on the next page indicates, HUD has been relatively successful in ensuring that small business concerns receive a large share of procurement awards to provide external analysis and management services. There is a general movement in the direction of awards from large organizations (both for-profit and not-for-profit) to small for-profit organizations.[4] Also, since the 13 awards made on an exclusionary basis to not-for-profit organizations

are not indicative of what will occur in the future, it is more appropriate to reflect the adjusted distributional pattern reflected in Table 5-1. The adjusted percentages are more valid, because no exclusionary competitive awards to not-for-profit organizations could be detected in the set of contract awards made prior to FY 79. The adjusted percentages illustrate that the share of awards received by small not-for-profit organizations has also been declining.

Table 5-1: Percentages Of The Number Of HUD Awards Received To Perform External Analysis And Management Services, By Organizational Type And Organizational Size

Organizational Type	Period					
	Prior to 79		79-80 (unadjusted)		79-80 (adjusted)	
	N	%	N	%	N	%
For-Profit						
Small	39	28.3	46	48.4	46	56.1
Large	46	33.3	18	18.9	18	22.0
Not-For-Profit						
Small	35	25.4	24	25.3	11	13.4
Large	18	13.0	7	7.4	7	8.5
All Organizations	138	100.0	95	100.0	82	100.0

The general conclusion is that the combined influence of small business set-asides and other exclusionary procurement methods for small business concerns have reduced the degree of competition substantially in the recent past between for-profit and not-for-profit organizations and will do so even more in the future. HUD has indicated to the SBA that the number of awards to small business concerns (both minority and nonminority) is to increase significantly. Taken to its extreme, Table 5-1 implies that this policy will have the effect of

reducing not-for-profit participation in the procurement process to negligible proportions. Thus, even though the relative amounts within categories of nonexclusionary procurement methods awarded to for-profit and not-for-profit organizations will continue to be a function of behavioral and economic factors, political decisions will establish the parameters by which these behavioral and economic factors will affect the distribution of awards.

Implications for Future Research

Throughout this thesis, the commonalities of the procurement policies of HUD and those of other federal agencies have been stressed. However, before discussing implications of this research effort for future research, it may be helpful to accentuate the differences.

It has been noted that the procurement process is much the same for all civilian agencies because these agencies must abide by the Code of Federal Procurement Regulations. The Department of Defense has its own procurement regulations. The two sets of procurement regulations are substantially the same, except that the military regulations are more voluminous and complex. Senator Chiles (D-Florida) has been attempting to have the two sets of procurement regulations consolidated into one. The probable effect is that more time-delays and administrative effort will be required to execute competitive contracts.

Further, even the civilian agencies are allowed to establish their own implementing regulations, and these are published as separate sections in the Code of Federal Procurement Regulations. Particularly for internal clearances, the procedures can differ substantially from one agency to another.

In addition to different administrative policies, the agencies differ in the degree of decentralization of procurement authority. For external analysis and management services, HUD retains such authority in Washington, D.C. Most of the federal agencies are thought to exhibit this tendency. But there are some agencies--i.e., the Department of Interior and the Department of Defense--in which procurement authority is much more decentralized.

Comparability studies need to be performed to assess the impact which the relative degree of centralization of procurement authority has in influencing the distribution of procurement awards between organizational types and sub-types and between geographical regions. It is suspected, for example, that if external analysis and management services were acquired through the regional offices instead of the central office in Washington, D.C., there would not be the geographical imbalance in the distribution of these awards which now seems to exist. Also, the participation in competition for colleges and universities would probably increase, while the participation of large research institutes might decline. But this might also result in a decrease in participation by minority-owned firms, particularly those which are owned by blacks. It is hypothesized that there is a much higher concentration of black-owned firms in the Washington, D.C., area than in any other part of the country because of the high concentration of blacks in Washington, D.C.

It should also be emphasized that HUD is a relatively small agency in comparison with other federal agencies. It is not known whether this in itself is a factor which influences the procurement

process. It may be, for example, that the influence of program officials is diminished in the larger agencies, because power within the bureaucracy is more fragmented. This might have an impact upon the degree of abrogation of authority by the contract office.

Finally, the organizational behavior of HUD may be a factor in the analysis. That is, HUD may be attempting to conform to the official goal of promoting either participation by minorities or by small not-for-profit organizations more than what is the norm for federal agencies. This might be associated with a relatively higher degree of "liberal" beliefs which are reputed to be held more by officials of HUD than many other federal agencies. This student observed no such tendency while employed at HUD; furthermore, the pragmatic perspective seemed as pervasive at HUD as other federal agencies. And if this is true, the presence of liberal or conservative beliefs is irrelevant. But this cannot be proven, given the scope of this thesis.

Throughout the following discussion, the limitations upon the scope of this thesis will be emphasized. There is a great need for further research regarding procurement policy and the impact of that policy upon service delivery systems. Thus, the following recommendations should be considered more as areas requiring research than suggestions for reform.

This research has indicated that exclusionary procurement policies at HUD are inexorably denying access to the procurement process by not-for-profit organizations. Further research needs to be performed to compare the distributional pattern of awards for services other than external analysis and management services (e.g., construc-

tion) and goods (e.g., furniture). It is suspected that the bureaucracies are instituting exclusionary procurement methods primarily for external analysis and management services. This has the effect of underrepresenting small business (both minority and nonminority) participation in some fields and overrepresenting them in external analysis and management services. Since it is only in the latter that not-for-profit organizations normally compete, there is a disproportionate impact upon the distribution of awards to these organizations. Probably, measures of adherence to official goals need to be kept separately by the General Accounting Office for three major categories of procurement--external analysis and management services, other services, and goods.

This research has implied that when small organizations feel they are only to compete against other small organizations, they are more likely to compete. This needs to be verified by survey to determine whether this tendency is present not only for prospective offerors for awards by HUD, but for awards by other agencies as well. If it is found that there is indeed a reluctance by small organizations to compete against larger organizations, the continued utilization of small business set-asides is warranted in order to accomplish the official goal to increase the participation of small business concerns. However, it should be noted that this analysis detected no inability of small organizations to actually compete against large organizations for HUD awards to perform external analysis and management services. Whether this is a tendency throughout the federal system is not known, but the hypothesis is that the tendencies discerned for HUD

in this regard are common for most of the agencies, even though there may be some exceptions.

The argument here is that if more comparative studies confirm the need to establish exclusionary preference on the basis of size, then status as a for-profit or not-for-profit organization should not deny eligibility to participate. But since not-for-profit organizations have offered little or no organized resistence to being so excluded, it is doubtful that the Congress will change the Small Business Act to allow participation by small not-for-profit organizations. Without a Congressional mandate, the Small Business Administration can be expected to resist such a change.

Comparative research also needs to be performed to determine whether the ability of 8(a) firms to compete in small business set-asides is a general tendency throughout the federal system. If so, there would be no evidence of the need for even more exclusionary procurement methods to encourage minority participation--i.e., 8(a) non-competitive awards and 8(a) competitions. Also, it has been determined that women-owned firms and firms owned by minorities other than blacks are particularly underrepresented in the distribution of HUD procurement awards for external analysis and management services. It is not known if this is a tendency common to other federal agencies. But it may be that 8(a) awards should be only reserved for those organizations owned by members of disadvantaged groups who require preferential assistance to participate in the market for different categories of goods or services (i.e., external analysis and management services, goods, and other services).

It is suspected that small not-for-profit organizations employ a high percentage of both minorities and women. Any policies which exclude small not-for-profit organizations from the procurement process are likely to have an impact upon the employment of women and minorities. If exclusionary policies are justified in terms of aiding members of disadvantaged groups, for-profit or not-for-profit status is not applicable, and eligibility should be targeted instead to the extent of participation within the respective organizations of disadvantaged groups (e.g., women). Further, different weights need to be devised (and assigned by the Congress) for different degrees of participation at the policy-making, professional, and support levels within the organization. Research needs to be conducted to determine how such scales could be established and applied to the procurement system.

Finally, this research has implied that whatever the exclusionary criteria, more efficiency needs to be reflected in the selection process to procure external analysis and management services. Cost efficiency should be given equal weight with technical proficiency. Less time needs to be spent in the awarding of contracts to allow more time to evaluate performance. And it might be that procurement methods should be utilized in the range of awards in which they produce the most savings to the Government. Furthermore, additional research needs to be conducted to determine whether the tendencies associated with HUD procurement methods are common to all federal agencies and for the procurement of goods and other types of services.

If the hypotheses mentioned in this section are valid, the implications for radical reform of the procurement system are immense.

However, it was noted at the beginning of this thesis that expectations of radical reform are unrealistic. The inefficiencies and inequities inherent in the federal procurement process are little understood by Congress and its agents, and only the Congress can change that process. This research effort has indicated that the Federal Procurement Data System is not designed to provide the information required by Congressional decision-makers to reform procurement policy. Further, a study of much broader scope than this thesis and one that is in nature more comparative than this thesis is required if tendencies discerned here can be verified as requiring Congressional (instead of agency) action. It is doubtful, though, whether any reviewer will have the time and resources to conduct a statistically valid study for the entire federal government. And even if such a study were feasible, it is doubtful whether most federal agencies would allow a direct examination of contract files because of a fear of violating Privacy Act requirments. Thus, the prospects for meaningful reform at what Sharkansky terms the "margins of government" are dim.[4]

NOTES FOR CHAPTER V

[1]Orlans, op. cit., p. 168.

[2]For a discussion of the competitive situation in which there is only one seller (i.e., a "monopolist") and/or only one buyer (i.e., a "monopsonist"), see: James Hibdon, Price And Welfare Theory (New York: McGraw-Hill Book Company, 1969c), pp. 237-271.

[3]The total amounts awarded for the contracts drawn in the sample were as follows: modifications, $9.7 m.; nonexclusionary non-competitive awards, $3.1 m.; and nonexclusionary competitive awards, $13.1 m.

[4]Sharkansky, op. cit., p. 116.

BIBLIOGRAPHY

Books

Anderson, Lee F.; Watts, Meredith W., Jr.; and Wilcox, Allen R. Legislative Roll-Call Analysis. Evanston, Illinois: Northwestern University Press, 1966.

Buchanan, James M., and Flowers, Marilyn R. The Public Finances, 4th ed. Homewood, Illinois: Richard D. Irwin, Inc., 1975.

Coleman, James S. Policy Research In The Social Sciences. Morristown, N.J.: General Learning Press, 1972.

Dosky, Raymond C., ed. DOD Cost And Price Analysis, Revised Ed. Columbus, Ohio: The Ohio State University Research Foundation, 1978c.

Dye, Thomas R. Policy Analysis. University, Alabama: The University of Alabama Press, 1976.

Etzioni, Amitai, and Doty, Pamela. The Profit In Not-For-Profit Institutions. New York: Center For Policy Research, 1976.

Guttman, Daniel, and Wilner, Barry. The Shadow Government. Int. by Ralph Nader. New York: Pantheon Books, 1976.

Harrington, Michael. Socialism. New York: Bantam Books, Saturday Review Press, 1972.

Hibdon, James. Price And Welfare Theory. New York: McGraw-Hill Book Company, 1969c.

Kirkpatrick, Samuel. Quantitative Analysis of Political Data. Columbus, Ohio: Charles E. Merrill Publishing Company, 1974c.

Lee, Robert D., Jr., and Johnson, Ronald W. Public Budgeting Systems. Baltimore: University Park Press, 1975.

Lowi, Theodore, J. The End of Liberalism. New York: W. W. Norton and Company, 1969.

Moore, Carl L., and Jaedicke, Robert K. Managerial Accounting, 2nd ed. Dallas, Texas: South-Western Publishing Co., 1967.

Orlans, Harold. The Nonprofit Research Institute. New York: McGraw-Hill Book Co., 1972.

Plato. The Laws. Translated with introduction by Trevor J. Saunders. Baltimore, Maryland: Penquin Books, 1972.

Samuelson, Paul. Economics, 8th ed. New York: McGraw-Hill Book Co., 1970.

Seligman, Ben B. Main Currents In Modern Economics. Toronto, Ontario: Collier-MacMillan Canada, Ltd., 1962.

Weiss, Carol. Evaluation Research: Methods For Assessing Program Effectiveness. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1972.

Articles

Bowen, Don L., and Collet, Merrill J. "When and How to Use a Consultant: Guidelines for Public Managers," Public Administration Review, 5, September/October, 1978, pp. 476-481.

Cooper, Phillip J. "Government Contracts In Public Administration: The Role And Environment Of The Contracting Officer," Public Administration Review, vol. 40, no. 5, September/October, 1980, pp. 459-468.

Finley, James J. "The 1974 Congressional Initiative In Budget Making," Public Administration Review, May/June, 1975, pp. 270-278.

Haider, Donald. "Presidential Management Initiatives: A Ford Legacy to Executive Management Improvement," Public Administration Review, vol. 39, no. 3, May/June, 1979, pp. 248-259.

Kline, Elliot H., and Buntz, C. Gregory. "On the Effective Use of Public Sector Expertise: Or Why the Use of Outside Consultants Often Leads to the Waste of In-House Skills," Public Administrative Review, vol. 39, no. 3, May/June, 1979, pp. 226-229.

Lindblom, Charles E. "The Science of 'Muddling Through.'" In Classics of Public Administration, pp. 202-213. Edited by Jay M. Shafritz and Albert C. Hyde. Oak Park, Illinois: Moore Publishing Co., Inc., 1978.

Lovett, Ed, and Norton, Monte. "Determining And Forecasting Savings Due To Competition," National Contract Management Quarterly Journal, vol. 13, Summer, 1979, pp. 18-27.

Musolf, Lloyd D., and Seidman, Harold. "The Blurred Boundaries of Public Administration," Public Administration Review, vol. 40, no. 2, March/April, 1980, pp. 124-130.

Page, Benjamin I., and Jones, Calvin C. "Reciprocal Effects of Policy Preferences, Party Loyalities and the Vote." American Political Science Review, vol. 73, no. 4, December, 1979, pp. 1070-1090.

Rosenblum, Robert, and McGillis, Daniel. "Observations in the Role of Consultants in the Public Sector," Public Administration Review, vol. 39, no. 3, May/June, 1979, pp. 219-226.

Sharkansky, Ira. "Policy Making and Service Delivery on the Margins of Government: The Case of Contractors," Public Administration Review, vol. 40, no. 2, March/April, 1980, pp. 116-123.

Wedel, Kenneth, R. "Purchase of Service Contracting: A State of the Art Review." In Social Services By Government Contract: A Policy Analysis, pp. 1-10. Edited by Kenneth R. Wedel, Arthur J. Katz, and Ann Weich. New York: "Praeger Publishers," Holt, Rinehart, and Winston, 1979.

Government Documents

U.S. Civil Service Commission. Financial Aspects Of A Federal Grant Program. Washington, D.C.: U.S. Civil Service Sommission, 1972.

U.S. Congress. Federal Grant and Cooperative Agreement Act of 1977. Pub. L. 95-224. Washington, D.C.: U.S. Government Printing Office, 1978.

U.S. Congress. House. Amending The Small Business Investment Act of 1958. Washington, D.C.: U.S. House of Representatives, Report 95-1714, 1978.

U.S. Congress. Senate. Government Affairs Committee. The Federal Grant And Cooperative Agreement Act of 1977. Washington, D.C.: U.S. Senate, Report 95-449, 1977.

U.S. Congress. Senate. Subcommittee on Reports, Accounting, and Management of the Committee on Governmental Affairs. Consultants and Contractors: A Survey of the Government's Purchase of Outside Services. Washington, D.C.: U.S. Government Printing Office, 1977.

U.S. Department of Commerce. Bureau of the Census. Statistical Abstract of the United States: 1960, 81st edition. Washington, D.C.: U.S. Government Printing Office, 1961.

U.S. Department of Commerce. Bureau of the Census. Statistical Abstract of the United States: 1979, 100th edition. Washington, D.C.: U.S. Government Printing Office, 1979.

U.S. Department of Health and Human Services. "RFP No. NIA 80-007." Washington, D.C.: U.S. Department of Health and Human Services, 1980. Mimeographed.

U.S. Department of Housing and Urban Development. "FY '80 MBE Procurement Activity As Of 3/31/80." Washington, D.C.: U.S. Department of Housing and Urban Development, 1980. Mimeographed.

U.S. General Accounting Office. Controls Over Consulting Service Contracts At Federal Agencies Need Tightening. Washington, D.C.: U.S. General Accounting Office, 1980.

U.S. General Accounting Office. FMC 74-4: Cost Principles Applicable To Grants And Contracts With State And Local Governments. Washington, D.C.: General Accounting Office, 1974.

U.S. General Services Administration. National Archives and Record Service. Code of Federal Regulations. Title 41, Public Contracts and Property Management, Ch. 1-2. Washington, D.C.: Government Printing Office, 1978.

U.S. Office of Management and Budget. Managing Federal Assistance In The 1980's. Washington, D.C.: Office of Management and Budget, 1979.

U.S. Office of Management and Budget. Office of Federal Procurement Policy. Quarterly Report of Federal Contract Awards: Fiscal Year 1979. Washington, D.C.: Office of Federal Procurement Policy, 1980.

U.S. Office of Management and Budget. Office of Federal Procurement Policy. Special Analysis 1: Federal Contract Awards Over $10,000--By Type Of Contractor. Washington, D.C.: Office of Management and Budget, 1980.

U.S. Office of Management and Budget. Office of Federal Procurement Policy. Special Analysis 2: Federal Contract Awards Over $10,000--By Product And Service. Washington, D.C.: Office of Management and Budget, 1980.

U.S. Office of Management and Budget. Office of Federal Procurement Policy. Special Analysis 3: Federal Contract Awards Over/Under $10,000, Minority And Small Disadvantaged Business, By Executive Department And Agency And By State, Fiscal Year 1979. Washington, D.C.: Office of Management and Budget, 1980.

U.S. Office of Management and Budget. Office of Federal Procurement Policy. Special Analysis 5: Federal Labor Surplus Preference Over $10,000 By Executive Department And Agency, By State By Product/Service, Fiscal Year 1979. Washington, D.C.: Office of Management and Budget, 1980.

U.S. Office of Management and Budget. Special Analyses Budget of the United States Government: Fiscal Year 1981. Washington, D.C.: U.S. Government Printing Office, 1980.

U.S. Small Business Administration. "Revision to Method of Establishing Size Standards and Definitions of Small Business." Federal Register, vol. 45, no. 48, March, 1980, pp. 15445-15450.

Other Sources

Benson, Oliver. "Political Science Laboratory: Statistical Supplement." Norman, Oklahoma: University of Oklahoma, 1977.

Betts, Roy., editor. Minority Contracting Reports, vol. 2, no. 2, January 25, 1980, p. 5.

Hamilton, Martha M. "Increase In Federal Contracting Generates Troubling Questions," The Washington Post, 24 February 1980, p. G1.

Magnotti, John F., Jr., and Hostetler, James S. "The Role of Nonprofits." Washington, D.C., 1979. Mimeographed.

"Mental Health Programs Viewed as Ineffective," Public Administration Times, vol. 3, no. 20, October 15, 1980, p. 11.

Wattenburg, Ben J., ed. The U.S. Fact Book, commercial ed. of Statistical Abstract Of The U.S.: 1975, 96th ed. New York: Grosset and Dunlap, 1976.

APPENDIX B: CODEBOOK

The codebood is arranged by the order of precedence of the variables utilized in the computer file. The variables describe characteristics of the organization actually receiving the award. The variable names as reflected in the computer file and the fields occupied on the data cards are as follows:

VARIABLE	COLUMNS
ID	1- 4
PRCD	5- 5
SP79CD	6- 6
SP80CD	7- 7
PRIORACT	8- 9
NO79ACT	10- 11
NO80ACT	12- 13
OTHERACT	14- 15
ORGTYPE	16- 16
ORGSIZE	17- 17
EMP	18- 22
MINOWN	23- 23
EIGHTA	24- 24
MINTYPE	25- 25
WOOWN	26- 26
CONTYPE	27- 27
PROCCD	28- 29
DESCODE	30- 33
OFF	35- 35

VARIABLE	COLUMNS
FUNDTYPE	36- 36
RECPROC	37- 37
RECSOLE	38- 38
REQQTR	39- 40
REQAMT	41- 47
BASICQTR	48- 49
BASICFEE	50- 55
BASICAMT	56- 62
BASCTIME	63- 65
NCOMP	66- 68
NAWARDS	69- 71
MODAMT	72- 78
CONID	1- 4
MODFEE	5- 11
MODTIME	12- 14
COMPTIME	15- 17
PRCTTIME	18- 19
INOFFER	20- 26
TECHSCOR	27- 28
LEASTCST	29- 29
HISCOR	30- 30
COSTCLAS	31- 31
COSTRANK	32- 34
TECHCLAS	35- 35
TECHRANK	36- 38
NBES	39- 41
BESOFFER	42- 48
BESSCOR	49- 50
BESLSTCS	51- 51
BESHISCR	52- 52
BESCSTCL	53- 53
BESCSRNK	54- 56
BESTECCL	57- 57
BESTECRK	58- 60
RFPTIME	61- 63
NSOURCES	64- 67
NOFFERS	68- 70
SOURCECD	71- 71
OFFERCD	72- 72

Contract Number (ID)

HUD's official four digit identification number (unique for each contract) was used. Prefixes (e.g., "H" or "HC") were deleted.

Action Code--Primary (PRCD)

"Action codes" were selected according to whether there was a contractual action, i.e., an original award or a modification which increased the amount of the contract. Decreases in the contractual amount were not considered as contractual actions, but rather as adjustments in the original amount (i.e., the basic amount) of the contract or the immediately preceding modification. The following primary action codes were used:

0	There were no FY 79 or FY 80 contractual actions.
1	There were no FY 79 or FY 80 basic awards; but there were FY 79 and/or FY 80 modifications.
2	The basic was awarded in FY 79. There might or might not have been modifications in FY 79 or FY 80.
3	The basic was awarded in FY 80. There might or might not have been FY 80 modifications.

Action Codes--Supplemental (SP79CD and SP80CD)

These variables were not used in the analysis. Thus, these two fields were reserved for future use.

Contract Actions--Prior To 1979 (PRIORACT)

The number of contractual modifications executed prior to FY 79 was indicated in a two-element field.

Contract Actions--1979 (NO79ACT)

The number of contractual modifications executed in FY 79 was indicated in a two-element field.

Other Actions (OTHERACT)

The number of noncontractual actions--e.g., Small Business Administration "prime" contracts (i.e., clearances), "no money" modifications, task orders, and task specifications--executed in all fiscal years was recorded in a two-element field.

Organizational Type (ORGTYPE)

The following codes were used to differentiate between organizational types (as indicated by the organization itself on the Certifications and Representations portion of the file or by other sources):

1	for-profit organizations
2	educational institutions
3	nonprofit research foundations and other not-for-profit organizations

Organizational Size (ORGSIZE)

At first, organizational size was coded according to whether the organization indicated on the Certifications and Representations portion of the file (or other sources) that it was "small" or "large." After preliminary runs on the computer, a more objective criterion was utilized. Codes used were:

1	"small" (the organization employing fewer than 200 employees)
2	"large" (the organization employing greater than or equal to 200 employees)

Employment (EMP)

The number of employees of the organization receiving the award was entered into a five element field.

Minority Ownership (MINOWN)

The codes used to indicate minority ownership (i.e., fifty-one percent of the stock held by minorities) were as follows:

1 minority owned

2 not minority owned

8(a) Status (EIGHTA)

The following codes were utilized to indicate whether an organization was eligible to participate in the Small Business Administration's 8(a) program:

1 organization has 8(a) status

2 organization does not have 8(a) status

Minority Type (MINTYPE)

The following codes were utilized to indicate the racial type of minority ownership as indicated in the Certifications and Representations portion of the file:

0 nonminority

1 Black

2 Hispanic

3 American Indian/Alaskan Native

4 Asian/Pacific Islander

Woman Ownership (WOOWN)

The following codes were utilized to indicate whether the organization was woman-owned (i.e., a majority of the stock held by a woman):

1 woman-owned

2 not woman-owned

Contract Type (CONTYPE)

This information was collected only for those organizations which had primary action codes of 1, 2, or 3. Codes used were:

1	cost-reimbursement contract
2	fixed-price contract
3	indefinite quantity contract
9	not applicable (i.e., had a "0" primary action code)

Procurement Method (PROCCD)

Originally, sixteen codes were used to describe the procurement method utilized for the basic award. For the purposes of this thesis, the number of codes was reduced to seven. These were:

9	not applicable (i.e., had a "0" primary action code)
11	Competitive, Exclusionary which were "small businesses")
14	Competitive, Exclusionary (to for-profit organizations which had 8(a) status)
16	Competitive, Exclusionary (to not-for-profit organizations)
24	Competitive, Nonexclusionary
31	Noncompetitive, Exclusionary (to 8(a) organizations)
34	Noncompetitive, Nonexclusionary

Description Code (DESCODE)

HUD's list of description codes for differentiating between the various types of services was utilized. The codes were renumbered to delete alphanumeric characters. This resulted in 20 primary description codes and 24 supplemental description codes. In the analysis, only four of the primary description codes and eight of the supplemental

codes were utilized. The other codes referred to services other than what is herein understood as external analysis and management services or they were inapplicable to purchases by HUD. The codes utilized were as follows:

Primary Description Codes	Supplemental Description Codes
1030 Quality Control, Inspection Services	none
1110 Professional, Technical and Management Services	1111 Architect-Engineering Services 1112 Automatic Data Processing 1113 Management and Professional Services 1114 Special Studies and Analyses
1140 Training Services	none
2000 Research and Development	2020 Community Services and Development 2050 Economic Growth and Productivity 2100 Housing 2150 Social Services

The only difference between the codes utilized by HUD and by this student involved "ADP Systems Analyses" under code 1114 (Special Studies And Analyses). For the sake of clarity, all automatic data processing services (including ADP Systems Analyses) were coded 1112 (Automatic Data Processing Services).

Requesting Office (OFF)

Codes utilized to desinate the HUD program office initiating the request for the procurement were as follows:

1	Office of the Secretary, Office of the General Counsel, Office of the Inspector General, or Office of Legislation and Intergovernmental Relations
2	Assistant Secretary for Community Planning and Development
3	New Community Development Corporation
4	Government National Mortgage Association
5	Assistant Secretary for Housing
6	Assistant Secretary for Neighborhoods, Voluntary Associations, and Consumer Protection
7	Assistant Secretary for Policy Development and Research
8	Assistant Secretary for Administration
9	Not applicable (i.e., had a "0" primary action code)

Fund Type (FUNDTYPE)

The following codes were used to denote whether the program office would lose the reserved amount of funds if those funds were not obligated through contract by the end of the fiscal year in which the request was made:

1	yes
2	no
9	not applicable (i.e., had a "0" or "1" primary action code)

Recommended Procurement Method (RECPROC)

The following codes were used to denote whether the procurement method actually used to award the contract by the contract office was the same as that recommended by the program office:

1	yes
2	no
9	not applicable (i.e., had a "0" or "1" primary action code)

Recommended Sole Source (RECSOLE)

The following codes were utilized to identify whether the organization receiving the contract (from the contract office) was recommended as a sole source by the program office:

0	not applicable. The program office requested a competitive contract.
1	The sole source awarded the contract was the same as that recommended by the program office.
2	The sole source awarded the contract was not the same as that recommended by the program office.
3	The program office requested a sole source procurement, but did not specify any particular organization.
9	not applicable (i.e., has a "0" or "1" primary action code.

Request Quarter (REQQTR)

The following codes were utilized to denote the quarter in which the request for the basic procurement was made:

9	not applicable (i.e., had a "0" or "1" primary action code)
11	first quarter, FY 1978
12	second quarter, FY 1978
13	third quarter, FY 1978
14	fourth quarter, FY 1978
21	first quarter, FY 1979
22	second quarter, FY 1979

23	fourth quarter, FY 1979
24	fourth quarter, FY 1979
31	first quarter, FY 1980
32	second quarter, FY 1980

Request Amount (REQAMT)

A seven element field was utilized to denote the amount reserved by the program office for that particular procurement. A "9" denoted that REQAMT was not applicable, i.e., the award had a "0" or "1" primary action code.

Basic Quarter (BASICQTR)

The codes used to indicate the quarter in which the basic contract was awarded were the same as for the variable REQQTR (see above).

Basic Fee (BASICFEE)

A six element field was utilized to denote the amount of fee awarded under that particular procurement. A "9" denoted a not applicable award with an action code of "0" or "1" or with CONTYPE equalling 2 or 3.

Basic Amount (BASICAMT)

A seven element field was utilized to denote the total amount of the basic award. A "9" denoted an award with an action code of "0" or "1" (i.e., not applicable for this procurement).

Basic Time (BASCTIME)

The difference between the request date and the award date--by number of days--was entered in a three element field. A "9" denoted a "0" or "1" award.

Number of Competitors (NCOMP)

If a competitive procurement, the number of competitors in the initial competition was used. If a noncompetitive award, NCOMP would equal 1. If the action code equalled "0" or "1", NCOMP was not applicable for this procurement and was denoted by a "9".

Number of Awards (NAWARDS)

If a competitive procurement, the number of contracts awarded as a result of the RFP (used as a basis for selecting the recipient(s) of the award) was used. If a noncompetitive award, NAWARDS would equal 1. If the primary action code was "0" or "1", NAWARDS was not applicable for this procurement and was denoted by a "9".

Total Amount of Current Modifications (MODAMT)

All FY 79 and FY 80 modifications were aggregated into a seven element field. If the action code were "0", MODAMT was not applicable for this procurement and was denoted as "9".

Contract ID (CONID)

This was an identifing variable to denote the beginning of the second card of the case and is identical to ID.

Total Amount of "Mod" Fees (MODFEE)

All FY 79 and FY 80 fees awarded as a result of modifications were aggregated into a seven element field. If the action code were "0" or CONTYPE equaled 2 or 3, MODFEE was not applicable for this procurement and was denoted by "9".

Average Time for Modification (MODTIME)

The individual differences between the request date for the modification and the modification award date were averaged (in days). If MODFEE equaled 9, then MODTIME equaled 9.

Competitive Time (COMPTIME)

The difference (in days) between the date proposals were received in response to any given RFP and the date the final selection was made was entered into a 3 element field. If this was a non-competitive procurement, or if the primary action code was 0 or 1, then 9 was entered.

Note: If COMPTIME equaled 9, then all of the following variables had to equal 9. Either the award had an action code of 0 or 1, or the award was a noncompetitive procurement, and the variable was not applicable to that procurement. When 9 indicates something in addition to the above, it will be specified. Otherwise to avoid repetition, no explanation will be forwarded.

Competitive Time as Percent of Total Time (PRCTTIME)

PRCTTIME was calculated by dividing COMPTIME by BASCTTIME and then multiplying by 100.

Initial Offer (INOFFER)

The initial offer of the successful organization was shown in a seven element field. When CONTYPE equaled 3, INOFFER had to equal 9 (i.e., not applicable).

Technical Score (TECHSCOR)

The score received by the successful organization in the initial competition was indicated in a 2 element field.

Least Cost (LEASTCST)

The following codes were used to denote whether the organization winning the award offered the least cost alternative:

1	yes
2	no
9	not applicable (i.e., a 0 or 1 action code, a noncompetitive procurement, and/or CONTYPE equaled 3).

High Score (HISCOR)

The following codes were used to denote whether the organization winning the award received the highest score in the initial competition:

1	yes
2	no

Cost Class (COSTCLAS)

The following codes were used to denote which class the winning organization's initial offer belonged to:

1	third third (least expensive cost class)
2	second third

3 first third (most expensive)

9 not applicable (i.e., a 0 or 1 award, a noncompetitive procurement, or CONTYPE equaled 3)

Cost Rank (COSTRANK)

The relative cost rank of the successful organization in the initial competition was indicated in a three element field. When CONTYPE equaled 3, COSTRANK equaled 9.

Technical Class (TECHCLAS)

The following codes were used to denote which class the winning organization's initial technical score belonged to:

1 first third (group of highest scores)

2 second third

3 third third (group of lowest scores)

Technical Rank (TECHRANK)

The relative technical rank of the successful organization in the initial competition was indicated in a three element field.

Note: The following variables corresponded with the variables utilized to summarize the initial competitive process. These variables referred to the "best and final" competitive process. Codes used were identical in meaning to those used for initial competition. In those cases where there was initial competition, but no best and final competition, a "9" was reflected in all of the best and final variables. In addition, a "9" could have the meaning previously described for initial competition variables.

Initial Competition Variables	Corresponding Best And Final Variables
NCOMP	NBES
INOFFER	BESOFFER
TECHSCOR	BESSCOR
LEASTCST	BESLSTCS
HISCOR	BESHISCR
COSTCLAS	BESCSTCL
COSTRANK	BESCSRNK
TECHCLAS	BESTECCL
TECHRANK	BESTECRK

Time Given to Submit Proposals (RFPTIME)

The time given to submit proposals was the difference (in days) between the date specified on the RFP as the issuance date and the date specified on the last modification to the RFP as the date after which proposals would not be accepted (if no modifications, the date so specified in the RFP was used).

Number of Sources (NSOURCES)

The number of organizations (i.e., "sources") sent the RFP was reflected in a four element field.

Number of Offers (NOFFERS)

The number of organizations responding to the RFP was reflected in a three element field.

Source Code (SOURCECD)

The following codes were utilized to reflect whether not-for-profit organizations were invited to submit proposals for this procurement:

0 The source list did not include not-for-profit organizations.

1 The source list did include not-for-profit organizations.

9 SOURCECD was not applicable to this procurement. Either the primary action code equaled 0 or 1, or this was a noncompetitive procurement.

Offer Code (OFFERCD)

The following codes were utilized to reflect whether not-for-profit organizations submitted proposals in response to the RFP:

0 No offers were received from not-for-profit organizations.

1 Offers were received from not-for-profit organizations in response to this RFP.

9 Not applicable (for the some reasons as for SOURCECD).