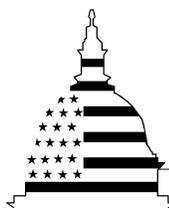


October 2003

SMALL BUSINESS ADMINISTRATION

Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-04-76](#), a report to congressional requesters

SMALL BUSINESS ADMINISTRATION

Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication

Why GAO Did This Study

The Small Business Administration (SBA) has recognized that it needs to realign its current organizational structure and processes to improve its ability to fulfill its primary mission—supporting the nation’s small businesses. In July 2002, SBA announced that it was initiating a transformation effort to increase the public’s awareness of SBA’s services and products and make its processes more efficient. GAO evaluated SBA’s progress in implementing its transformation initiatives and challenges that have impeded or could impede implementation and whether SBA’s transformation incorporates practices GAO has identified in previous work that are important to successful organizational change.

What GAO Recommends

SBA should (1) ensure that implementation leadership is clearly identified to employees and stakeholders, (2) finalize its transformation plan and share it with employees and stakeholders, (3) develop performance goals, (4) use the performance management system to define responsibility, (5) develop a communication strategy that promotes two-way communication, and (6) solicit ideas of employees and the union and ensure that their concerns are considered. SBA said it would consider our recommendations but disagreed with some of our findings related to its budget requests and employee communication and involvement.

www.gao.gov/cgi-bin/getrpt?GAO-04-76.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi D’Agostino at (202) 512-8678 or d'agostinod@gao.gov.

What GAO Found

SBA has made some progress in transforming its organization, although efforts could be impeded by budgetary and staffing challenges. SBA started three district office pilots to test marketing and outreach techniques and two pilots to centralize loan processes. However, SBA officials told us that their plans for expanding the pilots and implementing additional initiatives have changed because the agency did not receive any funding for transformation in fiscal year 2003 and may not receive any in fiscal year 2004. GAO found that SBA did not provide consistent, clear budget requests with a detailed plan for transformation results. The challenge of staffing its centralization initiatives, including relocating employees and avoiding undue disruptions to operations, could further complicate SBA’s progress.

When SBA initially planned and began implementing transformation, it gave some attention to practices important to successful organizational change. SBA drafted a plan and created an implementation team to manage the transformation. However, significant weaknesses in implementation could impede further progress and exacerbate the challenges noted above. The transformation could fail if practices and implementation steps focusing on transparency and communication are not given more attention.

Key Practices and Examples of Weaknesses in SBA’s Actions and Plans

Practice	Weaknesses in SBA’s actions and plans
Ensure top leadership drives the transformation and dedicate an implementation team.	SBA’s leadership and implementation team has experienced changes, but those changes were not made evident to employees and stakeholders.
Set implementation goals and a timeline to build momentum and show progress from day one.	SBA created a transformation plan with implementation goals and a timeline, but the plan remained in draft and was never shared with employees and stakeholders.
Establish a coherent mission and integrated strategic goals to guide the transformation.	SBA needs to develop and link performance goals to support SBA’s strategic goals for transformation, such as expanding outreach to small businesses.
Use the performance management system to define responsibility.	SBA’s new performance management system is at risk if employees’ understanding of performance goals and individual responsibility remains unclear.
Establish a communication strategy to create shared expectations and report related progress.	SBA communicated through managers and a newsletter, but did not allow for two-way communication to obtain feedback from employees and stakeholders.
Involve employees to obtain their ideas and gain their ownership for the transformation.	SBA did not benefit from employee perspectives or gain employee support because employee and union involvement was limited.

Source: GAO.

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Abbreviations

IRS	Internal Revenue Service
SBA	Small Business Administration
SCORE	Service Corps of Retired Executives

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United States General Accounting Office
Washington, D.C. 20548

October 31, 2003

The Honorable Olympia J. Snowe
Chair, Committee on Small Business
and Entrepreneurship
United States Senate

The Honorable Donald A. Manzullo
Chairman, Committee on Small Business
House of Representatives

The Honorable Christopher S. Bond
Member, Committee on Small Business
and Entrepreneurship
United States Senate

Like many federal agencies, the Small Business Administration (SBA) has recognized it needs to realign its current organizational structure and processes. In doing so, SBA aims to improve its ability to fulfill its primary mission—supporting the nation’s small businesses and protecting their interests—by increasing the public’s awareness of SBA’s services and products and making its business and loan processes more efficient. For over a decade, SBA has been centralizing some functions of its many district offices to improve efficiency and has been moving more toward partnering with outside entities such as private sector lenders to provide direct services. SBA’s district offices were initially created to be the local delivery system for SBA’s programs, but as SBA has centralized functions and placed more responsibilities on its lending partners, the district offices’ responsibilities have also changed. In a previous report, we found that past realignment efforts during the 1990s had changed SBA’s organization but had also left parts of the previous structure intact, contributing to complicated organizational relationships and a field structure that was not consistently matched with mission requirements.¹ For example, we found confusion over the mission of the district offices, with SBA headquarters officials believing the district office’s key customer was small businesses and district office staff believing that their key customer was the lender who makes the loans to small businesses.

¹U.S. General Accounting Office, *Small Business Administration: Current Structure Presents Challenges for Service Delivery*, [GAO-02-17](#) (Washington, D.C.: Oct. 26, 2001).

SBA transformation efforts have not been a reaction to any change in SBA's mission. Rather, SBA's intent has been to transform the agency so that it can more effectively and efficiently achieve its mission. In its current transformation effort, SBA intends to expand centralization to additional loan functions and some of its other small business programs to improve efficiency. As centralization frees up employees in the district offices, SBA intends to better define the district office role to focus on marketing and outreach to small businesses and managing SBA's relationships with lenders and other resource partners.²

Following SBA's testimony in July 2002,³ which stated that SBA was initiating a 5-year workforce transformation plan, you requested that we (1) review SBA's progress in implementing its transformation initiatives and discuss any challenges that have impeded or could impede implementation and (2) determine whether SBA's transformation incorporates practices that are important to successful organizational change and effective human capital management in the federal government. This report contains the results of our review of SBA's implementation of the first phase—approximately 6 months—of the transformation effort. As part of phase one, SBA planned to implement pilot initiatives to test a new marketing focus for its district offices and centralize some of its loan functions.

To conduct this review, we analyzed planning, budget, and implementation documents related to SBA's transformation and interviewed key officials at SBA headquarters. We also conducted site visits at each of the pilot offices involved in the first phase—three district office pilots in Phoenix, Arizona; Miami, Florida; and Charlotte, North Carolina; and two center pilots in Santa Ana and Sacramento, California. At these locations, we interviewed all employees who were directly affected by the pilot. To ensure open communication, we met with directors, supervisors, and employees separately. We compared SBA's implementation process for transformation with practices important to successful transformations, using practices we identified in literature and our previous work on

²SBA's resource partners include organizations such as Small Business Development Centers and Women's Business Centers that provide management and technical assistance and the Service Corps of Retired Executives (SCORE) chapters in which volunteer business executives counsel small businesses and potential entrepreneurs.

³House Committee on Small Business, Subcommittee on Workforce, Empowerment, and Government Programs, *Maximizing Organization and Leadership in a Federal Agency to Fulfill Its Statutory Mission: Restructuring of the Small Business Administration*, 107th Cong., 2nd sess., 2002.

reorganizations, organizational change, and human capital management.⁴ We performed our review from February through September 2003 in accordance with generally accepted government auditing standards.

Results in Brief

SBA has made some progress in implementing the first phase of its transformation, but further progress could be hampered by budget and staff realignment challenges. To meet its objectives for phase one, SBA (1) implemented a pilot initiative at three district offices to test a new marketing focus and (2) centralized a number of loan functions from these offices to two centers to assess ways to improve the efficiency and consistency of its loan functions. SBA is currently nearing completion of phase one, and to prepare for its new marketing focus, it has provided marketing-related training to staff at the three district offices and also conducted an analysis to identify staffs' developmental needs in marketing. In addition, SBA transferred most of the loan processing and liquidation cases from the three district office pilots to the two centralization pilots. However, SBA officials told us that they delayed the start-up of the district office and centralization pilots in phase one due to the requirement in their appropriations that they notify the appropriations committees prior to going forward with any organizational restructuring, the government's fiscal year 2003 continuing resolution, and a shrinking operating budget. As of our report date, phase two has not yet begun; however, SBA officials told us that plans for this phase have been scaled back because the agency did not receive any of the funds specifically requested for the transformation in its fiscal year 2003 budget, and officials believe that SBA may not receive any requested transformation funds in its fiscal year 2004 budget request. Thus, SBA would have to rely on any available operating funds to carry out the transformation. Given the current situation, officials said the focus is now on creating a new center for centralizing all of its loan liquidation and loan guaranty purchase activities. While SBA's implementation efforts have been and could continue to be impeded by budget constraints, we found that the agency's budget requests for transformation were inconsistent and lacked a detailed plan that showed priorities and linked resources to desired results. SBA's centralization efforts could also be impeded by the challenge of realigning staff from

⁴The main document we relied on in identifying key practices was our recent report, U.S. General Accounting Office, *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

multiple field offices so that SBA can operate its central locations with experienced employees.

When SBA initially planned and implemented its transformation it gave some attention to practices important to successful organizational transformation. However, over time SBA began to overlook key aspects of these practices involving leadership, setting implementation goals and a timeline, establishing an integrated mission and strategic goals, using the performance management system, communication, and employee involvement that are important to successful organizational change. SBA's top leadership, the Administrator and Deputy Administrator, has demonstrated support for the transformation. However, after SBA's Chief Operating Officer left the agency shortly after initiating the pilots, it was not evident to employees and stakeholders who was responsible for implementing the transformation. Although SBA had developed a sound draft transformation plan explaining the purpose, implementation goals and a timeline, it did not make the draft plan public or provide the reasons for upcoming steps. As a result, it appeared to many district office employees and stakeholders that headquarters lacked a plan and direction. In its fiscal year 2004 performance plan, SBA reported strategic goals to guide the transformation, but it has not linked transformation to existing performance goals or developed new goals against which to measure its marketing and outreach efforts. In addition, in the human capital area, although SBA has taken steps toward creating a performance management system that would define responsibility and set expectations for employees, it too is at risk because the agency has not yet created a clear and defined linkage between the employees' roles and the goals of the transformation. Also, SBA has not established an effective strategy for communicating with employees and stakeholders to engage them in the transformation process, encourage two-way communication, and communicate early and often to build trust. Many district office employees and stakeholders told us that they generally heard about transformation-related actions through rumors. Finally, district office employees and union officials told us that they have not been actively involved in planning or implementing the transformation.

This report includes recommendations to SBA's Administrator. To improve implementation of its transformation, we are recommending that SBA (1) ensure that implementation leadership is clearly identified to employees and stakeholders, (2) finalize its draft transformation plan and share it with employees and stakeholders, (3) develop and link performance goals to its strategic goals, (4) use the new performance management system to define

responsibility, (5) develop a communication strategy that promotes two-way communication, and (6) involve employees and the union to solicit ideas and ensure that their concerns are considered.

We obtained written comments on a draft of this report from SBA's Chief Financial Officer. SBA's comments and our response are discussed near the end of this report, and SBA's letter is reprinted in appendix I. In commenting on the draft, SBA did not state whether it concurred with our recommendations but said it would consider them as it continues to plan for and implement its transformation efforts. SBA specifically noted that it had already addressed recommendations related to developing performance goals and using the performance management system to define responsibility as a result of a new strategic plan issued after the completion of our audit work and implementing its new performance management system for employees on October 1, 2003. SBA disagreed with our finding that its budget requests for transformation were unclear. SBA also disagreed with our characterization of the extent to which it had communicated with and involved employees.

Background

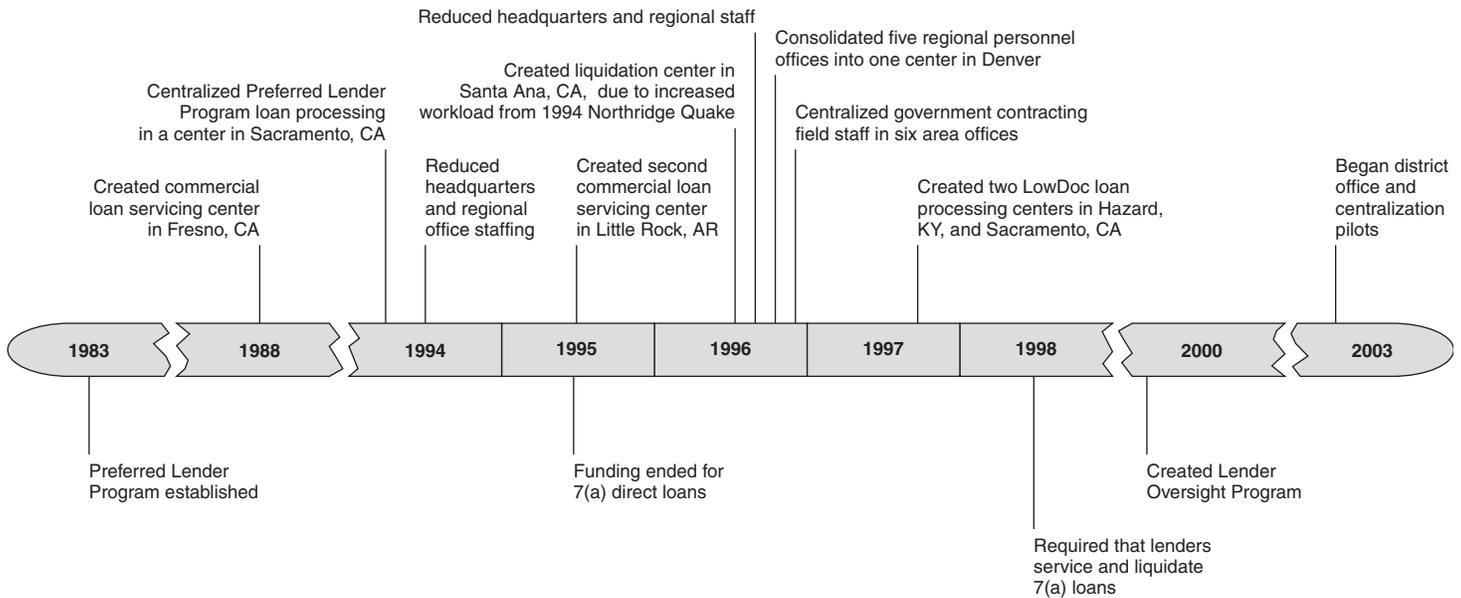
In pursuing its mission of aiding small businesses, SBA provides small businesses with access to credit, primarily by guaranteeing loans through its 7(a) and other loan programs, and provides entrepreneurial assistance through partnerships with private entities that offer small business counseling and technical assistance. SBA also administers various small business procurement programs, which are designed to assist small and small disadvantaged businesses in obtaining federal contracts and subcontracts. In addition, SBA makes loans to businesses and individuals trying to recover from a disaster.

As figure 1 shows, SBA has experienced many organizational changes over the past 20 years partly due to changing the way it delivers its services and partly due to budget cuts. Perhaps the largest change to SBA's service delivery has occurred in its lending programs, where the agency went from making loans directly to guaranteeing loans made by commercial lenders. SBA provides small businesses with access to credit, primarily by guaranteeing loans through its 7(a) and 504 programs. For the 7(a) program, SBA can guarantee up to 85 percent of the loan amount made by private lenders to small businesses. Within the 7(a) program, for smaller loans, SBA offers SBA Express as an option to lenders who will use their own applications and underwriting procedures by agreeing to a lower guaranty of 50 percent. Within the 7(a) program, there are three

classifications of lenders—regular, certified, and preferred lenders—that illustrate the various range of responsibilities handed over to lenders. SBA continues to provide final approval of loans made by its regular lenders through the district offices. Certified lenders have the authority to process, close, service, and may liquidate SBA guaranteed loans, and SBA provides expedited loan processing and servicing. Preferred lenders are given full authority to make loans without prior SBA approval. However, these lender-approved preferred loans are submitted to SBA's Sacramento Processing Center, which, among other things, verifies that the lender has documented eligibility requirements, issues a loan number, and processes the loan guaranty. Under the 504 program, SBA provides its guaranty through certified development companies—private nonprofit corporations—that sell debentures that are fully guaranteed by SBA to private investors and lend the proceeds to qualified small businesses for acquiring real estate, machinery, and equipment, and for building or improving facilities. When a 7(a) or 504 loan defaults, SBA reviews the lender's request for SBA to purchase the guaranty, and if the lender met SBA's program requirements, SBA pays the claim. SBA usually relies on the lender to recover as much as it can by liquidating collateral or SBA takes over the loan servicing and liquidation.⁵

⁵Liquidation is the act of enforcing collection on a debt that has defaulted by selling underlying securities that the borrower has pledged as collateral. If collateral proceeds are insufficient to cover the outstanding balance, lenders may pursue personal guarantees or obligations provided by business owners or others in support of the loan.

Figure 1: Timeline of Major Organizational and Operational Changes by Fiscal Year



Source: GAO.

SBA's loan programs have also been the focus of a major organizational change with the creation of centers to process and service the majority of SBA's loans—work once handled largely by district office staff. (See fig. 1.) About 92 percent of the processing and servicing of SBA-guaranteed loans are handled in centers instead of district offices. Among other things, these centers process the loan guaranty and review servicing requests submitted by lenders and borrowers.

In response to budget reductions, SBA streamlined its field structure during the 1990s, downsizing the 10 regional offices, moving the workload to either district offices or headquarters offices, and eliminating most of the regions' role as an intermediate management layer between headquarters and the field. SBA created the Office of Field Operations to take over the role of intermediary. SBA's overall workforce has decreased by over 20 percent since 1992 and as of 2002 includes about 4,075 employees, including 956 for the Office of Disaster Assistance and 102 employees for the Office of the Inspector General.

When SBA embarked on this current transformation effort, it planned its implementation in three phases. The key pilot initiatives SBA undertook in

phase 1 that began on March 10, 2003, focuses on (1) transforming the role of the district office to focus on outreach to small businesses about SBA's products and services and linking these businesses to the appropriate resources, including lenders and (2) centralizing its loan functions to improve efficiency and consistency of its loan approval, servicing, and liquidation processes. Later phases will include expanding these pilots to the remaining district offices. As SBA proceeds in transforming the district offices and centralizing many of its processes, it will analyze its business processes to identify opportunities for improvement and reduce its office space to achieve some cost savings. Finally, SBA's plan included initiatives to apply technology and use the Internet to reach out to more small businesses.

SBA Has Made Some Progress in Implementing Transformation, but Budget Constraints and Staffing Challenges Could Continue to Impede Progress

As part of the first phase of SBA's transformation, the agency began implementing pilot initiatives to test a new marketing focus for its district offices and centralizing some of its loan functions. As the first phase nears completion, SBA has made some progress in implementing the pilot initiatives at three district offices and two centers. While SBA's implementation efforts have been and could continue to be impeded by budget constraints, we found that the agency did not always clearly communicate its budget requirements. SBA's centralization efforts could also be impeded by the challenge of realigning staff from multiple field offices so that it can operate its central locations with experienced employees.

SBA Made Progress in Implementing Initial District Office and Centralization Pilots

SBA's purpose for transformation is to realign its organization, operations, and workforce to better serve its small business customers. Based on SBA transformation documents and agency officials, the agency planned to approach its transformation in phases to allow it to test a number of initiatives and to make refinements before implementing the initiatives agencywide. In our July 2002 testimony on SBA's workforce transformation plan, we noted that SBA had started to develop a sound implementation plan for its transformation.⁶ As part of phase one, SBA intended to test a new marketing and outreach initiative for its district offices that would refocus their efforts on becoming more responsible and

⁶U.S. General Accounting Office, *Small Business Administration: Workforce Transformation Plan Is Evolving*, GAO-02-931T (Washington, D.C.: July 16, 2002).

accountable for promoting small business growth and development as well as on providing better oversight and management of its lenders and resource partners. Additionally, SBA planned to centralize a number of the offices' loan functions to (1) free up district office staff to reach and respond to the needs of local businesses and to do more lender and partner management and oversight and (2) improve the efficiency and consistency of its loan processing, servicing, and liquidation functions. To accomplish these initiatives, in March 2003, SBA began its initial pilot initiative at three district offices and two centers and based on its initial transformation plan, it expected to run the pilots for 6 months before moving to the second phase of its transformation. As of our report date, SBA is nearing the completion of phase one of its district office and centralization pilots and plans to expand the results of phase one to all of its other district offices. Based on our site visits to the pilot offices and discussions with SBA headquarters officials, we identified a number of transformation-related activities that SBA has made progress in since implementing its initial pilot initiative. Specifically, for its district office initiative to

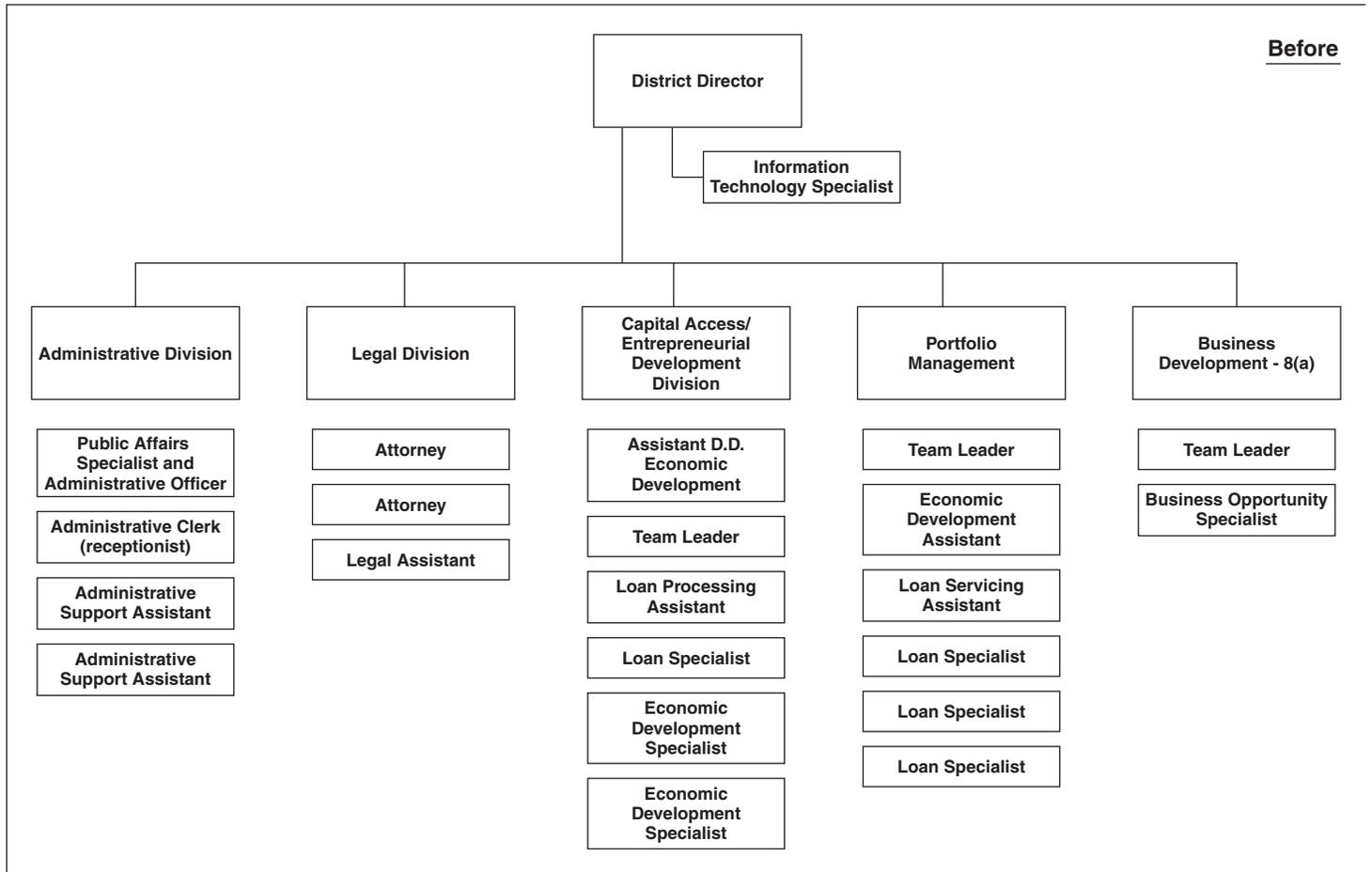
- prepare staff in carrying out their new marketing and outreach roles, during March through June 2003, SBA provided training at the three district office pilots on topics such as marketing and outreach, presentation skills, and customer/partner relationships;
- develop the competencies necessary for staff to carry out their new roles and to evaluate gaps in the existing skill sets of its staff, SBA has hired a contractor to conduct a skills analysis. In July 2003, the contractor completed the analysis for the three pilot district offices and according to SBA officials, district office management will use the results to identify its employees' developmental needs in the marketing and outreach areas;
- update and clarify the specific duties that SBA expects its district office staff to perform in their new marketing roles, the agency developed new job descriptions for its marketing and outreach specialist positions at the district office level; and
- allow staff at the three pilot district offices more time to conduct marketing and outreach functions, in March 2003, these offices had stopped processing any new 7(a) liquidations and guaranty purchase cases and 504 loan origination applications. In addition, the offices had also transferred most of their outstanding 7(a) liquidation cases to SBA's liquidation center in Santa Ana, California.

Additionally, a key component of SBA's transformation is to make fundamental changes over the next 5 years at its district office level to reflect the change in the agency's vision for its district offices from making and servicing loans to primarily reaching out to new markets and overseeing its private-sector partners. Based on our site visits to the three pilot district offices, we found that the offices have begun to move toward SBA's new vision for its district offices. Specifically, SBA's Phoenix, Arizona, office has officially changed its organization structure to allow its staff to focus mainly on marketing and outreach-related activities. As shown in figure 2, the office has replaced its portfolio management division with divisions for lender development and marketing and outreach, and it also moved some staff formerly in portfolio management to its business development division. The Miami and Charlotte district pilots have also started to expand their marketing and outreach efforts. For example, a Charlotte official told us that it plans to use "SBA Days" as a way to reach out to small businesses in its district. SBA Days are events conducted at local chambers of commerce around the district's state where SBA staff along with chamber members and other firms in the area conduct one-on-one counseling sessions with business owners and potential entrepreneurs. To reach small businesses in the Miami area, officials told us that the office is using one of its resource partners to work with a national chain of office supply stores to provide on-site counseling to small business customers when they are in the stores.

SBA headquarters officials provided us with briefing slides that show that the three district office pilots have submitted proposals for establishing alternative customer service sites so that SBA employees can provide direct customer service in areas outside the physical location of the district offices. For example, the Phoenix district office already has one marketing specialist located in Tucson and is proposing two additional positions to support lender relations. Officials also told us they are working with local governments and resource partners to identify free office space for these new sites, but in some cases there may be some rental expenses.

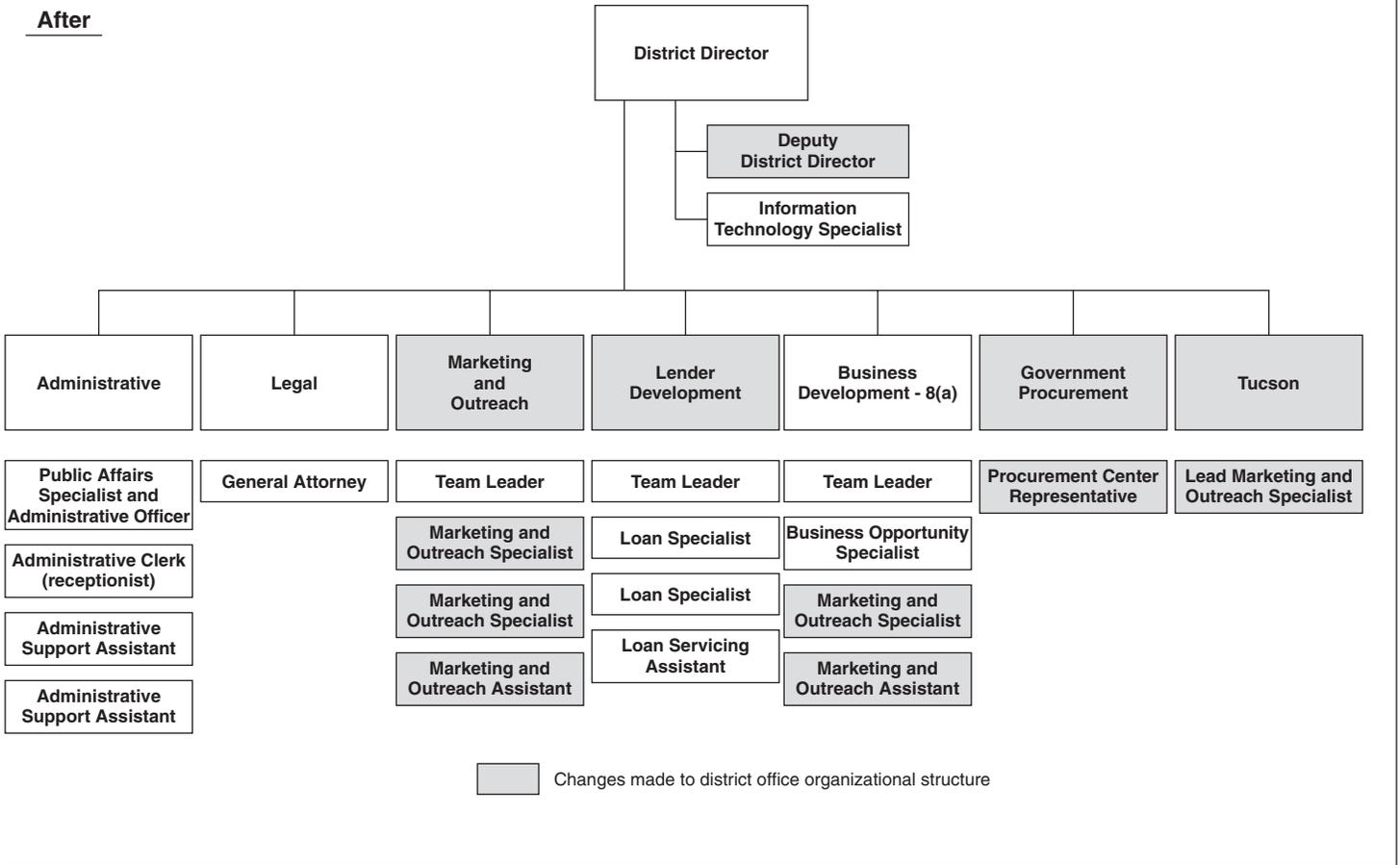
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Figure 2: Phoenix, Arizona, District Office Organizational Structure “Before and After” Transformation



Source: GAO.

After



Finally, as part of its centralization initiative to improve the efficiency and consistency of its loan approval, servicing, and liquidation processes, in March 2003, SBA's two pilot centers assumed their new roles and responsibilities. The liquidation center in Santa Ana, California, began processing new 7(a) liquidations and guaranty purchase cases from the three pilot district offices, and the loan processing center in Sacramento, California started processing new 504 loan origination applications from these offices. In May 2003, the Santa Ana center also started working on 1,275 outstanding 7(a) liquidation cases from the three pilot district offices. Based on SBA's benchmark reporting data for its centralization pilot, as of October 2003, the Santa Ana center had processed 185 of 227 new 7(a) guaranty purchase cases it had received and closed 55 of 450 7(a) liquidation cases. The Sacramento center had processed 582 new 504 applications that it had received since beginning the pilot initiative.

According to SBA and representatives from two lender trade associations, the centralization pilot has resulted in a more efficient and consistent processing of SBA's 7(a) liquidation and guaranty purchases and 504 loan approvals. SBA headquarters officials told us that the agency would be able to perform these functions with far fewer resources than it has to date. According to the officials, based on results from a workload analysis SBA did of the Santa Ana centralization initiative, it found that the 7(a) liquidation and purchase guaranty process could be done by 40 employees in a center, as opposed to the 266 employees that now process the cases in its district offices. SBA officials also told us that centralization results in faster processing times. SBA data indicate that the average turnaround time for processing 7(a) guaranty purchases has decreased from 129 days to 32 days and, for 504 applications, it has gone from about 14 days on average to about 2 days. We reviewed about 450 cases of the 504 application approvals from the pilot and found that most applications were processed and returned to the certified development companies in about 2 days. We did not review data for any of the other measures. When we visited the two centers participating in the pilots, center officials showed us documentation they were using to make the process more efficient and consistent. For example, for the 504 pilot, the Sacramento center developed standardized letters to send to certified development companies in situations where the center receives an incomplete application package from a company. According to a center official, some district offices spend a lot of time making telephone calls to the development companies requesting the necessary data to complete the processing. However, by using the letters, the official said the center is saving time because it stops processing the application until it receives the needed information, and in

the meantime it can continue processing applications that are complete. One official representing certified development companies told us that the companies participating in the pilot initiative for SBA's 504 program are pleased with the results of the pilot. Officials representing 7(a) lenders said that some lenders might not be in favor of centralization because they have good working relationships with the local SBA district office and would prefer to continue working directly with them.

Budget Uncertainties and Constraints Affected Transformation, but SBA Needs to Better Communicate Budget Requirements

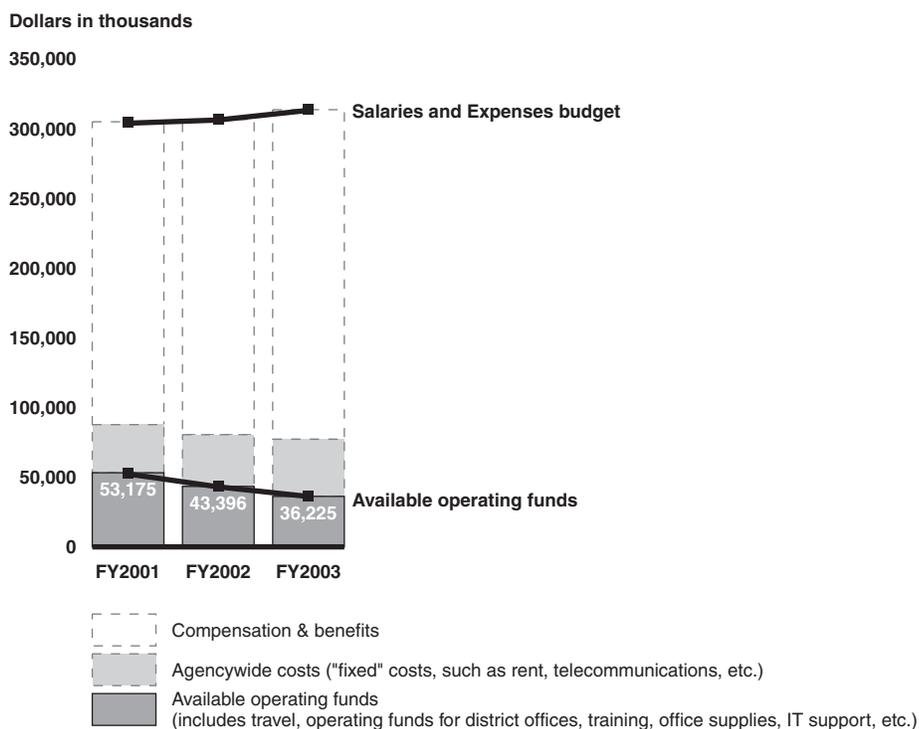
SBA transformation efforts have been impeded and could continue to be impeded by budget uncertainties and constraints. SBA officials stated that due to inflation and increases in employee compensation and benefits, available operating funds had been declining since 2001 as shown in figure 3. Therefore, SBA requested specific funding for its transformation. According to SBA officials, the agency expected to start its pilot initiative in July 2002 with funds from its 2002 operating budget and then expand the initiative in phase two of its transformation, 6 months later, with funds specifically requested for transformation in its 2003 budget. But SBA delayed the start of the pilot until March 2003 due to a number of uncertainties about its budget. SBA officials explained that language in its appropriations bills requires that SBA notify the appropriations committees 15 days prior to reprogramming its funds for relocating an office or employees, or reorganizing offices.⁷ In the summer of 2002, SBA notified the appropriations committees about its intent to go forward with the pilots. However, SBA was told that it should first negotiate with its union before moving forward. Although SBA reached agreement with its union, starting the initiative still remained an issue for SBA because, according to officials, it was too late to use 2002 operating funds as it initially planned. While SBA then planned to use 2003 operating funds to start the pilot initiative, officials said that the government's 2003 continuing resolution⁸ further delayed the start because without an approved operating budget,

⁷Consolidated Appropriations Resolution FY 2003, (H.J. Res. 2) Pub. L. 108-7, Div. B, Title VI, § 605 (2003).

⁸If Congress has not enacted an annual appropriations for an agency by the beginning of a fiscal year the agency must begin an orderly shutdown of most of its activities and operations due to the funding gap, unless Congress passes a continuing resolution. A continuing resolution is a temporary appropriations authorizing an agency to incur obligations during an interim period at a fixed rate until Congress enacts the annual appropriations for the agency.

SBA did not know the portion of its operating budget that would be available for transformation.

Figure 3: SBA's Available Operating Funds Have Declined Since Fiscal Year 2001



Source: GAO depiction of SBA data.

For its 2003 budget, Congress did not approve any of the \$15 million that SBA specifically requested for transformation activities planned for phase two, and SBA officials told us they do not believe the agency will receive any of the \$21.1 million for transformation in its 2004 budget request. According to officials, SBA has had to change its transformation plans and the level of funding associated with these plans because of its shrinking operating budget and the lack of specific appropriations for transformation. Specifically, officials stated that SBA actually spent \$96,000 in 2003 operating funds on the first phase of its transformation for activities associated with its pilot initiative, including shipping files, training, travel, and pilot office evaluations. Officials could not tell us how much money SBA initially planned to spend in phase one when it was going to use 2002

operating funds or whether any of the activities associated with this phase had to be cut back due to the lack of funds. However, many employees in the district offices we visited told us that they had not received the level of funding needed to support marketing and outreach functions including money for travel, laptops, and cell phones that would allow them to cover a wider geographic area in the districts and to test telecommuting and alternative work sites.

Although SBA struggled with budget uncertainties and constraints as it began implementation of its transformation, SBA could have provided better information about its budget requirements. Based on our analysis of SBA budget request data for fiscal years 2003 and 2004, SBA has not clearly defined its budgetary needs for transformation. As shown in figure 4, the labeling of specific transformation initiatives varies between SBA's fiscal years 2003 and 2004 Budget Request and Performance Plans, making it difficult to compare and align its transformation activities from year to year. Also, as shown in figure 4, in its fiscal year 2004 budget request, SBA requested \$21.1 million for a number of investment initiatives, of which \$8.8 million was for transformation. The \$8.8 million figure was also the amount cited by SBA's Administrator during two congressional hearings.⁹ When we met with SBA headquarters officials to discuss the variances in its budget request data, the officials told us that SBA's 2004 budget request for transformation is the entire \$21.1 million, and not the \$8.8 million. In response to our questions about the budget data inconsistencies, SBA officials attributed the differences to the agency's changing environment. However, the inconsistencies we found in SBA budget request data and the lack of a detailed plan make it difficult for outsiders, including congressional stakeholders, to understand the direction SBA wants to take with transformation and the resources it needs to achieve results.

⁹During his statements on June 4 and February 26, 2003, regarding SBA's fiscal year 2004 budget request, before the Senate Committee on Small Business & Entrepreneurship and the House Committee on Small Business, SBA's Administrator, Hector V. Barreto, indicated that its budget request included \$8.8 million for its transformation effort in fiscal year 2004.

Figure 4: Comparison of SBA's Fiscal Years 2003 and 2004 Budget Requests for Transformation

Dollars in millions

Presidential Initiatives FY 2003 SBA Budget Request and Performance Plan March 12, 2002	Investment Initiatives FY 2004 SBA Budget Request and Performance Plan February 3, 2003																																																							
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Source: GAO.

Note: In SBA's fiscal year 2004 budget request for transformation, SBA listed \$2,000,000 for space restructuring. This amount should have been \$2,750,000, which SBA had listed in another location of the document.

Staffing Challenges Could Impact Centralization Efforts

To staff its centralization initiatives, SBA will have to relocate employees from its 68 district offices scattered throughout the country.¹⁰ Realigning staff from multiple field offices to central locations is and will be an ongoing challenge for SBA. Relocations could not only prove potentially disruptive for employees but can also have an effect on SBA's operations by negatively impacting morale and productivity. As part of phase one of its transformation, SBA centralized a number of loan functions from the three pilot district offices to two of its existing loan processing and servicing centers. In phases two and three of its transformation, SBA had planned to expand its centralization initiative until all of its loan functions performed by its remaining 65 district offices were centralized. In addition, SBA had planned to have fewer centers by consolidating some of its existing ones.

Based on our discussions with SBA staff in the pilot offices, the staffing of any centralization initiative with experienced staff could be potentially challenging for SBA. Specifically, some staff believed that the two pilot centers would not have a sufficient number of staff to handle the increased workloads when SBA expands its centralization initiative to include more district offices. According to one district office employee, unless the two pilot centers or any other center have enough staff with the right skill mix, they will be unable to adequately respond to lenders, which the employee believed could potentially affect relationships between SBA and the lending community. One center official characterized the problem as fundamental because in his view staff are not all equally adept and SBA is faced with matching jobs with people who do not have the skills to do the work. An official representing one of SBA's lender trade associations also expressed concern that if SBA forced employees to move, that the centralization initiatives will be staffed with employees with low morale that could hurt productivity.

SBA's first attempt to realign staff with one of its centralization initiatives was to establish a new 7(a) liquidation and guaranty purchase center near Washington, D.C., beginning in early October 2003 and operate it with 40 liquidation staff relocated to the center from its district offices. Based on SBA transformation documents, SBA plans to relocate those staff with the greatest experience into the center to take advantage of their expertise.

¹⁰Prior to February 2003, SBA had 70 district offices. In February 2003, SBA notified Congress of its intent to designate two of its district offices—Spokane, Washington; and Cedar Rapids, Iowa—as branch offices and this change was formally made in September 2003.

According to SBA officials, to identify experienced staff the agency used results from a cost allocation survey that provided information on the amount of time district office staff spend on loan liquidation functions. On September 10, 2003, SBA sent notification letters to certain district office employees identified as having worked on liquidations, informing them that they were eligible for a monetary buy-out if they separated from federal service not later than September 30, 2003. While the letter also states that the employee has 7 calendar days to accept the buy-out offer, it is unclear how SBA would handle reassigning those staff who do not accept the buy-out offer. Specifically, the letter does not mention where staff are being assigned, or what relocation costs SBA would pay.

According to the memorandum of understanding between SBA and its employees' union signed September 9, 2003, the two parties agreed that current district office staff at the GS-9 level and above who reported spending at least 25 percent of their time performing liquidations on SBA's most recent cost allocation study would be directly reassigned to the new liquidation center in the Washington, D.C., metropolitan area, or to one of the six most severely understaffed SBA district offices in New York, New York; Newark, New Jersey; Atlanta, Georgia; Chicago, Illinois; and San Francisco and Los Angeles, California. The memorandum indicates that SBA identified the six offices based on staffing levels for those district offices with the lowest ratio of SBA staff to small businesses in their service area, as of August 1, 2003. Also, the memorandum states that SBA plans to begin relocating staff 30 days from the time it notifies them about their reassignment to the center and that it will pay all of an employee's relocation cost in accordance with the law. While SBA has indicated that it will make reassignments as minimally disruptive for its employees as possible, depending on where the 40 staff being reassigned to the center currently work, logistical factors associated with moving, such as finding a new home, could pose a challenge for these staff. As of our review date, SBA had not informed us about when it expects to begin the reassignments or the number of and office locations for the employees that it intends to relocate.

SBA Applied Some but Not Many Aspects of Practices and Implementation Steps Important to Successful Transformation

We compared SBA's implementation process to practices that have been identified in major private and public sector organizational transformations as key for a successful transformation. Building on lessons learned from the experiences of large private and public sector organizations, these practices can help agencies successfully transform their cultures so that they can be more results oriented, customer focused, and collaborative. While SBA applied some key practices, such as involving top leadership, dedicating an implementation team and developing an implementation plan, it also overlooked key aspects that emphasize transparency and communication. For example, although it developed a draft transformation plan with implementation goals and a timeline, it did not share the plan with employees and stakeholders. SBA developed strategic goals for transformation but still needs to link those goals with performance goals and its performance management system. Finally, a lack of communication and employee involvement in SBA's communication approach did not encourage two-way communication to obtain feedback from employees and stakeholders and involve employees to obtain their ideas and gain their ownership for the transformation.

Practices Important to Successful Transformation

According to key transformation practices, people are at the center of any change management initiative—people define the organization's culture, drive its performance, and embody its knowledge base. Experience shows that failure to adequately address—and often even consider—a wide variety of people and cultural issues are at the heart of unsuccessful transformations. Recognizing the “people” element in these initiatives and implementing strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes, is the key to a successful transformation. Thus, transformations that incorporate strategic human capital management approaches will help to sustain agency efforts to improve efficiency, effectiveness, and accountability in the federal government.

We convened a forum on September 24, 2002, to identify and discuss useful practices and lessons learned from major private and public sector mergers, acquisitions, and transformations.¹¹ The invited participants were a cross section of leaders who have had experience managing large-scale organizational mergers, acquisitions, and transformations, as well as academics and others who have studied these efforts. The forum neither sought nor achieved consensus on all of the issues identified through the discussion. Nevertheless, there was general agreement on a number of key practices that have consistently been found at the center of successful mergers, acquisitions, and transformations. In a follow-up report issued on July 2, 2003, we identified specific implementation steps for these key practices.¹² These practices and implementation steps are shown in table 1.

Table 1: Key Practices and Implementation Steps for Organizational Transformations

Practice	Implementation step
Ensure top leadership drives the transformation.	<ul style="list-style-type: none"> • Define and articulate a succinct and compelling reason for change. • Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	<ul style="list-style-type: none"> • Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	<ul style="list-style-type: none"> • Embed core values in every aspect of the organization to reinforce the new culture.

¹¹U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, [GAO-03-293SP](#) (Washington, D.C.: Nov. 14, 2002).

¹²U.S. General Accounting Office, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

(Continued From Previous Page)

Practice	Implementation step
Set implementation goals and a timeline to build momentum and show progress from day one.	<ul style="list-style-type: none">• Make public implementation goals and timeline.• Seek and monitor employee attitudes and take appropriate follow-up actions.• Identify cultural features of merging organizations to increase understanding of former work environments.• Attract and retain key talent.• Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	<ul style="list-style-type: none">• Establish networks to support implementation team.• Select high-performing team members.
Use the performance management system to define the responsibility and assure accountability for change.	<ul style="list-style-type: none">• Adopt leading practices to implement effective performance management systems with adequate safeguards.
Establish a communication strategy to create shared expectations and report related progress.	<ul style="list-style-type: none">• Communicate early and often to build trust.• Ensure consistency of message.• Encourage two-way communication.• Provide information to meet specific needs of employees.
Involve employees to obtain their ideas and gain ownership for the transformation.	<ul style="list-style-type: none">• Use employee teams.• Involve employees in planning and sharing performance information.• Incorporate employee feedback into new policies and procedures.• Delegate authority to appropriate organizational levels.
Build a world-class organization.	<ul style="list-style-type: none">• Adopt leading practices to build a world-class organization.

Source: GAO.

SBA Transformation Has Top Leadership Support and a Designated Implementation Team, but Senior Officials' Roles Were Not Always Transparent

One of the key practices important to a successful transformation is for the agency to ensure that top leadership drives the transformation. SBA has followed this practice, with both the Administrator and the Deputy Administrator demonstrating support for the transformation. The SBA Administrator has provided a rationale behind the purpose of the agency and the goals of the transformation by addressing district directors and visiting field offices to discuss the importance and goals of

transformation—to increase awareness of SBA’s services and to make SBA a better trained, better equipped, and more efficient organization. SBA officials told us that the Deputy Administrator has also visited many field offices to discuss the transformation.

Designating a strong and stable implementation team that will be responsible for the transformation’s day-to-day management is also important to ensuring that transformation receives the focused, full-time attention needed to be sustained and successful. SBA has dedicated an implementation team to manage the transformation process, but it has experienced leadership changes that were not made apparent to employees and stakeholders. The composition of the team is important because of the visual sign it communicates regarding which organizational components are dominant and subordinate or whether the transformation team involves a team of equals. Prior to the Deputy Administrator assuming the lead for implementing the transformation, the Chief Operating Officer was responsible. The Chief Operating Officer, along with SBA’s Associate Administrator for the Office of Field Operations, visited the pilot district offices during the kick off to promote the transformation and to address questions and concerns of the pilot district office staff. However, the Chief Operating Officer left SBA shortly after the first pilot phase was initiated.¹³ Similarly, the person who was initially the Associate Administrator for the Office of Field Operations, who was responsible for overseeing the district office pilots, was no longer involved in the transformation shortly after implementation. SBA officials told us that it was not productive for its Chief Operating Officer to be in charge of the transformation because the Chief Operating Officer position was equal in terms of authority to the other key positions on the implementation team. Since the Chief Operating Officer left the agency, SBA has not publicly designated a day-to-day manager for the transformation effort. Based on our discussions with stakeholders and field and union officials, the Counselor to the Administrator appeared to be the manager. However, SBA has not issued any announcement or otherwise clarified the leadership or implementation team to employees and stakeholders. SBA officials told us that the person now serving as the Associate Administrator for the Office of Field Operations leads the weekly conference calls with the district and center directors involved in the pilots and is the person most involved in the day-to-day management of the transformation.

¹³ This position was still vacant as of October 23, 2003.

The Deputy Administrator, who can direct the other members of the implementation team, leads the current team, which comprises senior executives of the key program areas affected by the transformation such as the Associate Deputy Administrator for Capital Access, the Associate Administrator for the Office of Field Operations, Chief Human Capital Officer, and the three pilot district office directors. The team also includes the Counselor to the Administrator and two Regional Administrators. Officials on the implementation team told us that they meet on a weekly basis with the Deputy Administrator and sometimes the Administrator to discuss the status and concerns related to the pilot's implementation. SBA officials also emphasized that the implementation team includes a mix of political appointees and senior career officials. For example, the Associate Deputy Administrator for Capital Access and the Associate Administrator for Office of Field Operations are political appointees. The Chief Human Capital Officer and the Counselor to the Administrator are career officials.

Lack of a Transparent Plan and Changing Focus Made SBA's Implementation Goals and Progress Reports Confusing

A key practice in organizational transformations is to set implementation goals and a timeline to build momentum and show progress from day one. Although SBA had developed a transformation plan that contains goals, anticipated results, and an implementation strategy, it never made the plan public. SBA headquarters officials told us that all of its plans provided to us were "preliminary" documents because of changes made to the plan; therefore, it had not been shared with employees or stakeholders. Making the implementation goals and timeline public is important for transparency and accountability in a transformation and because employees and stakeholders are not only concerned with what results are to be achieved, but also how to achieve those results. According to SBA's draft transformation plan, SBA intended to keep its employees apprised of the current status of activities, and continuously inform its employees on what the agency intended to do. However, SBA has not made much information available to its employees and stakeholders regarding the details of upcoming steps, measures for success, and reasons for decisions. As a result, it appeared to many district office employees and stakeholders that headquarters lacked a plan and direction. Stakeholders, including representatives from lender trade associations, informed us that SBA has not been forthcoming in discussing its transformation plans with them. Generally, district office employees told us they thought SBA had no clear plan and lacked direction. Specifically, two district office employees told us that despite any planning that SBA had done for the transformation, headquarters officials kept adding to the plan, and changing goals during

mid-year, which left employees in the district office uncertain about what to expect.

SBA officials told us that internal and external factors, such as budget uncertainties, caused SBA to alter aspects of the draft transformation plan. Initially, phases two and three of its transformation were to expand its district office and centralization pilot initiatives to additional district offices. SBA had also planned a number of other initiatives as part of the later phases, including analyzing its business processes to identify opportunities for improvement, restructuring its surety bond program, and expanding its technology systems. According to a revised plan dated August 1, 2003, and discussions with SBA officials, the focus of SBA's transformation is now on creating a new center for centralizing all of its 7(a) loan liquidation and loan guaranty cases. Also, the plan and other documentation describing SBA's new centralization initiative indicate that SBA's reason for the initiative is to allow it to correct staffing imbalances at its district offices nationwide and will allow these districts to increase the number of people in the field offices who are providing direct assistance to small businesses, including providing assistance in areas that have not had access to SBA services. While SBA officials told us the focus of the transformation had changed, we had difficulty in determining the extent of changes to the specific initiatives in its initial transformation plan, including to what extent SBA would test new marketing and outreach approaches, centralize other functions, and improve business processes. According to a senior SBA official, although there has not been a formal announcement about creating the liquidation center, he expected that staff would be aware that SBA was moving toward centralizing loan-related functions based on the new marketing and outreach focus in the pilot district offices, and because the union had been informed.

Similarly, although SBA planned for evaluating the progress of its pilot initiatives, the SBA evaluations provided to us have been limited to measuring the results of its centralization pilots and not the results of the district office pilots or lessons learned from the implementation process. As a result, employees and stakeholders are uncertain about the results of the district office pilots. According to key transformation practices, it is essential to establish and track implementation goals to pinpoint performance shortfalls and suggest midcourse corrections. According to SBA transformation documents and officials, follow-up evaluations of its pilot initiatives were to take place after kick off—every 90 days for the district office pilots and every 30 days for the center pilots—to evaluate the progress of the pilots, and to monitor and validate the information SBA

received. In addition, these reviews were intended to identify any problems related to the transformation process, as well as best practices, which would be documented and shared with the others in the pilot to improve efficiency and effectiveness. For its centralization initiative, SBA has established some evaluation standards—such as measuring average turnaround and processing time for the centers, and has generated a benchmark report reflecting the results of these measures. While SBA gathered benchmark measurements to monitor progress in the district office pilots as part of its quality service reviews conducted in January 2003, SBA did not provide an evaluation of the results of SBA’s district office initiative. As of our report date, it is unclear to us whether SBA has completed or begun district office evaluations. SBA officials told us that they are working on developing a way to evaluate the impact of the district office pilots and to link their marketing and outreach focus with their existing performance goals, such as loan volume, so that they would have a road map on lessons learned to use when adding more district offices to the pilot.

SBA Has Developed Strategic Goals for Its Transformation, but Needs to Link Performance Goals to Its Marketing and Outreach Focus

Establishing a coherent mission and integrated strategic goals is another key practice in organizational transformations. Although SBA has developed strategic goals to guide its transformation and included these goals in its fiscal year 2004 performance plan, SBA has not linked them with measurable performance goals that demonstrate the success of the agency’s expanded focus on marketing and outreach. According to the Government Performance and Results Act, agencies are required to develop annual performance plans that use performance measurement to reinforce the connection between the long-term strategic goals outlined in their strategic plans and the day-to-day activities of their staff, and include performance indicators that will be used to measure performance and how the performance information will be verified. District office employees we interviewed generally indicated an understanding of the strategic goals and the purpose of the transformation, and had a sense of what the transformation intends to accomplish. However, some district office employees told us that they did not know what the measures would be for determining whether the new marketing and outreach focus was successful, while others told us that they were unclear on how the district office staff should conduct marketing and outreach. SBA officials told us that the agency was still struggling with how to link its marketing and outreach focus with its existing performance goals, such as number of loans made by lending partners.

SBA currently uses quantitative measures, such as the number of jobs created, number of loans made, and dollar volume of loans to determine how well it is achieving its strategic goals. SBA officials told us that SBA uses an Execution Scorecard, which is an Intranet-based system, as the internal management tool to track data on each district offices' performance goals, for monthly progress reviews with the Deputy Administrator on key initiatives, including transformation. According to an SBA official, the scorecard shows that the loan volume in two of the three pilot district offices has increased more than in nonpilot district offices when compared to last year's volume. However, we identified other factors that could have contributed to an increase in loan volume. For instance, the policy changes made to its SBA Express program, which allows the lender to use its own documentation and applications, also most likely contributed to an increase in loan volume. In fact, other district offices not in the pilot have also seen an increase in loan volume. As a result, the scorecard may be limited in measuring success that could be directly attributed to the pilot efforts for marketing and outreach.

Lack of Clear Performance Goals Puts New Performance Management System At Risk

Using the performance management system to define responsibility and assure accountability for change is a key practice in organizational transformations. SBA has taken steps toward creating a performance management system that would define responsibility and set expectations for the individuals' role in the transformed SBA. However, since SBA is still struggling with how to define measurable outcomes for the new marketing and outreach focus, its performance management system may also send a confusing or ambiguous message to employees. We previously reported that as agencies continued to shift towards a greater focus on results, they would need to make progress connecting employee performance with agency success.¹⁴ An explicit alignment of daily activities with broader results helps individuals see the connection between their daily activities and organizational goals. According to SBA headquarters officials, SBA's performance management system, modeled after IBM's, would focus more on results and not on activity. SBA officials told us that SBA implemented its performance management system for senior executives and supervisory staff in fiscal year 2003. SBA is implementing the system for its nonsupervisory staff beginning in fiscal year 2004. SBA officials provided us with documentation of the new position descriptions for the marketing

¹⁴U.S. General Accounting Office, *Managing for Results: Emerging Benefits from Selected Agencies' Use of Performance Agreements*, GAO-01-115 (Washington, D.C.: Oct. 30, 2000).

and outreach positions that explained the duties and expectations. However, at the time of our review SBA was still developing the performance standards and had not yet implemented them for nonsupervisory staff. SBA recognized that it would need to provide training to help employees make the transition from their former areas of expertise to a new, broader, and in some respects, more complex job.

It was unclear what the linkage will be between these new job responsibilities, performance standards, agency performance goals, and the strategic goals for the transformation. District office employees who have been conducting new marketing and outreach activities told us that they were not sure how their performance will be measured because they have not received information on their performance management standards, and are unclear as to how their job responsibilities would change, or how they would be rated. Specifically, one district office employee told us that it was easy to measure loan specialist performance prior to the pilot because the standards were clear and concise—he knew from his own self-assessment where his performance stood—and that under the new performance management system, it will be harder to measure results because they are not tangible. In addition, another district office employee told us that although many employees see benefits to the transformation, they do not know how SBA will measure its progress toward reaching more of the public since employees do not understand what exactly they need to accomplish, such as number of clients the staff should contact or how many marketing events staff should attend, to help SBA reach its goals.

Communication Strategy Is Limited

While establishing a communication strategy is a key practice in organizational transformations, SBA has not established an effective and on-going communication strategy that would allow the agency to create shared expectations and report related progress to its employees and stakeholders. Organizations implementing transformations have found that communicating information early and often helps build an understanding of the purpose of planned changes and builds trust among employees and stakeholders. In particular, SBA does not have an effective communication strategy that reaches out to its employees and stakeholders to engage them in the transformation process, encourages two-way communication, and communicates early and often to build trust. A comprehensive communication strategy that reaches out to employees and stakeholders and seeks to genuinely engage them in the transformation process is essential to implementing a transformation.

SBA officials acknowledged that it was important for headquarters to communicate and address staffs' concerns. However, when we reviewed SBA's current methods of communication and asked employees in the pilot offices how they received information, we determined that communication is one-way and through a chain of command model, newsletters, or rumors. Communication is not about just "pushing the message out," but also involves facilitating an honest two-way exchange and allows for feedback from employees and stakeholders. SBA officials told us that SBA headquarters disseminated information to the employees through the regional administrators and the district directors—and a newsletter—*The SBA Times*. District office employees told us that they generally hear about transformation-related events either through their district director or their immediate supervisor, while other employees stated that they get most of their information through rumors. In addition, stakeholders also told us that they initially hear information through rumors. For instance, a representative from a lender association informed us that they get information through rumors because SBA did not provide any information about the transformation to them. As we noted in an earlier report, it is important for stakeholders to be involved because it helps to ensure that resources are targeted at the highest priorities, and it creates a basic understanding among the stakeholders of the competing demands that confront most agencies, such as the limited resources available.¹⁵

It is also important to consider and use employee feedback and make any appropriate changes to the implementation of a transformation. According to union officials, SBA had set up an e-mail address in June 2002 to which employees could send their questions regarding the transformation. However, despite staff submitting questions, the district office staff told us they have yet to see a list of the questions or SBA's responses. According to SBA officials, these emails were provided to senior management officials to respond to questions in conference calls held with field staff. The draft transformation plan we reviewed included a set of questions and answers about the transformation, but they were never made public. SBA officials told us that because all the transformation plans were preliminary, SBA has not drafted a thorough list of questions and answers and therefore had not made them available to employees.

¹⁵U.S. General Accounting Office, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

SBA did not communicate sufficiently with its employees. The information on the transformation initiative found in SBA's monthly newsletters from June 2002 through March 2003 reported on the status of the transformation effort, described the purpose of transformation, announced when the pilots began, and described them. We reviewed all of the newsletters issued after the kick off of the pilots in March 2003, to see what kind of information was provided to SBA employees. With one exception, the newsletters had no information about the transformation or the creation of the new 7(a) Liquidation and Purchase Guaranty Center and SBA's intention to reassign staff from overstaffed district offices to understaffed offices. The topic related to transformation included in one issue was a brief reference to the district office pilot in Phoenix. None of the newsletters mentioned who would replace two people who had been key leaders in the transformation—the Chief Operating Officer who left the agency or the Associate Administrator for Office of Field Operations who had moved to a different position within SBA. SBA officials told us that no one has filled the position of the Chief Operating Officer and the replacement for the Associate Administrator for Office of Field Operations was announced in an agencywide e-mail. However, as we stated earlier, after the Chief Operating Officer left the agency, SBA had not clarified who was leading the implementation team for transformation.

Transformation Has Not Adequately Involved Employees

Involving employees from the beginning to obtain their ideas and gain ownership of the transformation is important to successful transformations. It strengthens the process by including frontline perspectives and experiences. In addition, a study conducted by the National Academy of Public Administration indicates that agencies that have effectively restructured have also worked with their unions to implement changes.¹⁶ The Academy reported that when Congress mandated in 1998 that the Internal Revenue Service (IRS) restructure, IRS management worked with the National Treasury Employees Union to implement benchmarks and develop alternatives. As a result of this collaboration, according to the Academy, IRS facilitated the process of moving employees into new jobs and made the transition easier. Although SBA officials told us that SBA has involved its union, the American Federation of Government Employees, and signed memorandums of

¹⁶National Academy of Public Administration, Equal Employment Opportunity Commission: *Organizing for the Future* (February 2003). This report also includes the Academy's observations on the IRS restructuring.

understanding with the union on implementation of the pilot and on establishing a liquidation center, union officials told us that they had very little involvement. A union representative told us that SBA does not involve them in any of the planning and only includes the union after it has decided what it wants to accomplish. In addition, another union representative told us that since signing the memorandum of understanding for the first pilot phase in October 2002, SBA has not included the union in aspects of the transformation, such as creating SBA's competency models, or following up on training courses. SBA made a presentation to the union in July 2003 regarding the second phase of the pilot—to create a new liquidation center in the Washington, D.C., metropolitan area—prior to signing the second memorandum of understanding but did not give the union an opportunity for input on planning for the second phase. In September 2003, SBA and the union signed a memorandum of understanding on the creation of the new center in which SBA agreed to offer an early retirement for all agency personnel and a buyout option to those employees who performed the liquidation function.

SBA's transformation has not involved employees in the planning or implementation stages. During our field visits, we found that because SBA has not actively involved its employees in the transformation process, there is often anxiety and apprehension, as well as low morale in the pilot district offices. However, based on our field visit, we observed that the Arizona District Office's former Portfolio Management Team appeared to be less anxious about the transformation than Portfolio Management teams in the other district office pilots, mostly because the team leader and her staff were involved early in the transformation by preparing the loan files for the Santa Ana 7(a) center, and training the center staff. We found that because of this early involvement, they had a better sense of their role and were more optimistic about the transformation. An SBA headquarters official told us that SBA intends to use its employee feedback from training evaluations to modify its training curriculum for the next pilot phase, but we were unable to identify any other examples where employee opinions and perspectives were sought. During our field visits to the pilot offices, we found that the employees had valuable input on lessons learned and on ways that SBA could improve its implementation process. For example, one employee suggested that SBA create a guidebook for its employees on what to expect from the transformation, and that the three district office pilots be a resource for the guidebook. In addition, one district office employee suggested that SBA change the order of the training curriculum so that the course on results management is offered first to help

supervisors communicate with their staff regarding the transformation. We also observed that employees generally were not opposed to the transformation and saw benefits resulting from the transformation; however, a few employees expressed frustration with the way the process was implemented. If employees had a larger role in implementing and planning the transformation, such as through employee teams, they could help to facilitate the process by sharing their knowledge and expertise, particularly those employees who have had experience in the marketing and outreach area.

Conclusions

SBA has made some progress in implementing its transformation plan for phase one. However, continued success and progress in implementing its transformation may be impeded by budget uncertainties and constraints and the difficulties in realigning employees to staff centralization efforts. To some extent, SBA has compounded the budget challenge by not sharing its plan with a key stakeholder—Congress—and not providing clear, consistent budget requests with a detailed plan that show priorities and link resources to desired results. In addition, as SBA moves forward in centralizing its loan and other functions, realigning staff will likely present additional challenges, such as problems with employee morale and productivity.

Transforming an organization is not an easy endeavor. It requires a comprehensive, strategic approach that takes leadership, time, and commitment. Although SBA may achieve progress in the short-term by establishing new centers to improve some of its business processes, its long-term success in defining and institutionalizing a new role for its district offices will take more time and commitment. The practices we have identified as being important to successful transformation are especially important as SBA moves forward with its transformation and could also help mitigate the challenges it faces with its budget and staff realignment. However, the weaknesses we identified in SBA's implementation process could derail or negatively impact its transformation effort as the agency attempts to expand transformation and affect more of its operations and employees. SBA's leadership changes, plans, and rationales for decisions have not been made public and therefore have created an environment of confusion about the leadership, specific goals, and timeline for transformation. SBA is in the infant stages of developing a link between its broad strategic objectives and measurable performance goals, which will be important for determining the success of transformation. The lack of frequent and two-way communication has

exacerbated an environment of confusion, even though many employees understand the goals of transformation. Finally, SBA is missing out on one of its key strengths—its employees—by not adequately involving employees in the transformation process. This lack of employee involvement means that SBA does not receive information and perspectives that could improve and facilitate the transformation and promote employee buy-in.

Recommendations for Agency Action

In order to improve and build on transformation efforts under way at SBA, we recommend that the Administrator adopt key practices that have helped other organizations succeed in transforming their organizations. Based on our review of SBA's initial implementation of phase one of its transformation, we specifically recommend that the Administrator

- Clarify for employees, congressional, and other stakeholders the leadership and implementation team members who are guiding transformation.
- Finalize the draft transformation plan that clearly states SBA's strategic goals for transformation and includes implementation goals, timeline, and resource requirements, and share the plan with stakeholders and employees.
- Develop performance goals that reflect the strategic goals for transformation and more clearly link the strategic goals of transformation to existing performance goals. In addition, develop budget requests that clearly link resource needs to achieving these strategic and performance goals.
- Ensure that the new performance management system is clearly linked to well-defined goals to help individuals see the connection of their daily activities and organizational goals and encourage individuals to focus on their roles and responsibilities to help achieve those goals.
- Develop a communication strategy that facilitates and promotes frequent and two-way communication between senior managers and employees and between the agency and its stakeholders, such as Congress and SBA's lenders. For example, SBA could electronically post frequently asked questions and answers on its Intranet.

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- Facilitate employees' involvement by soliciting ideas and feedback from its union and staff, ensuring that their concerns and ideas are considered. For example, SBA could develop employee teams and expand employee feedback mechanisms like those it employed in the pilot training.

Agency Comments

We received written comments on a draft of this report from SBA's Chief Financial Officer, which are reprinted in appendix I. In commenting on the draft, SBA did not state whether it concurred with our recommendations but said it would consider them as it continues to plan for and implement its transformation efforts. SBA specifically noted that it had already addressed recommendations regarding developing performance goals and using the performance management system to define responsibility as a result of issuing a new strategic plan with revised performance goals and implementing its new performance management system for employees on October 1, 2003. SBA provided us with a draft strategic plan but then told us that the plan was being revised significantly and that we should wait until the revised plan was completed. Since this revised strategic plan was issued after we had completed our work, we did not have time to determine whether SBA had sufficiently addressed our recommendations related to linking its transformation efforts to strategic and performance goals and performance expectations for employees. Therefore, these recommendations will remain in the report, and we will determine whether SBA has implemented the recommendations as part of our recommendation follow-up process.

SBA disagreed with our finding that its budget requests for transformation were unclear. SBA stated that it clearly lays out its funding requests for transformation in the Fiscal Year 2003 and Fiscal Year 2004 Budget Request and Performance Plans. We used these documents to review SBA's budget requests for transformation and as the source for our analysis shown in figure 4 of the report. In its comments, SBA said that it had made changes to its budget format in fiscal year 2004 to bring it more in line with the requirements of the Results Act by integrating budget with performance goals. We clarified some language in the final report to better reflect the issues we identified with SBA's transformation budget requests. While the fiscal year 2004 budget request may have at some level integrated its budget request with performance goals for its programs, it did not make clear linkages between its request for transformation funds and its performance goals. The budget requests for transformation were not consistent in terms of amounts requested or stated purposes nor were they accompanied by a

detailed plan that showed priorities and linked resources to desired transformation results. Therefore, we still maintain that SBA could improve its transformation budget request presentation to better ensure that it links the request to transformation performance goals and outcomes.

SBA also disagreed with our findings related to communication and employee involvement. SBA stated that officials have traveled to the pilot district offices to explain the agency's transformation plans and solicited comments from district directors in a May 2002 district director conference. However, our draft report did not state that management was not involved or was uninformed, but that employees below the district director level in the pilot offices were not sufficiently involved and informed. Furthermore, SBA cites its efforts to communicate prior to the implementation of the pilots, which we recited in our draft report, but employees told us that their level of involvement and the amount of information they received was lacking after the pilot began. In its comments, SBA also stated that it conducts weekly telephone calls with the pilot district directors who in turn have regular meetings with their employees. Our draft report acknowledged SBA's use of conference calls with the district directors and the expectation that directors would then have meetings with their employees. However, we also found that notwithstanding communications with district directors, district office employees remained confused and lacked avenues for two-way communication with headquarters about the transformation. SBA also stated that it has worked with its union to gain agreement through memorandums of understanding for different parts of the plan, and these efforts were reflected in our draft report. However, in more than one discussion with us, union officials expressed concerns that SBA had approached them after having already decided what it was going to do and had not adequately informed the union about new initiatives or changes to the plan. We continue to maintain that SBA's transformation efforts could benefit from improved communication and employee involvement.

SBA also provided technical corrections, which we incorporated as appropriate in this report.

Objectives, Scope, and Methodology

In preparing this report, we focused on the district office and centralization pilots of phase one of SBA's transformation effort because (1) they were initiatives that had begun at about the same time we began our review and, therefore, we could observe the implementation process and (2) these pilot initiatives, if expanded, would impact all 68 SBA district offices.

To determine SBA's progress in implementing its transformation effort and challenges that have or could impede progress, we analyzed planning, budget, and implementation documents related to SBA's transformation and interviewed key officials at SBA headquarters involved in the transformation planning and implementation processes. We also conducted site visits at each of the pilot offices involved in the first phase—three district office pilots in Phoenix, Arizona; Miami, Florida; and Charlotte, North Carolina; and two center pilots in Santa Ana and Sacramento, California. At the center locations, we reviewed documents that were developed to make the process more efficient and consistent (for example, checklists and standardized letters). We also reviewed measures that SBA is using to assess the centralization pilots. From data SBA headquarters uses to track the pilots, we reviewed about 450 approvals for the 504 loan program pilot and calculated an average total response and processing time using the dates that were included in the data. At each of the pilot locations, we interviewed all employees who were directly affected by the pilot—in the case of the district offices, we met with virtually all employees.¹⁷ To ensure open communication, we met with directors, supervisors, and employees separately. We asked them to describe how their office, role, and job had changed; how information was communicated to them about transformation; and whether they had been provided training and resources to transition into new roles. We also asked them to identify the top five or fewer challenges and benefits of transformation and lessons learned from the initial implementation process.

¹⁷For employees that were not available at the time of our visits, we followed up through telephone calls, in most cases.

To assess whether SBA applied practices that are important to organizational change and human capital management in the federal government, we reviewed the literature and our previous work on reorganizations, organizational change, and human capital management to identify key practices that have been recognized as contributing to successful organizational transformation. The main document we relied on in identifying key practices was our recent report *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*.¹⁸ We used these criteria as a basis to assess SBA's planning process for transformation, implementation process for the pilots for phase one, leadership of the transformation, communication with employees and key stakeholders, and level of employee involvement. When interviewing SBA employees for objective one, we also asked questions to determine their understanding of the transformation effort and how they received information and communicated their questions or concerns. In addition to talking with employees involved in the pilots, we also interviewed representatives of SBA's union and asked the extent to which they were involved in the transformation process. To obtain feedback from SBA stakeholders, we interviewed officials representing the National Association of Government Guaranteed Lenders and the National Association of Development Companies, whose members include SBA 7(a) lenders and certified development companies that make 504 loans, respectively. We also met with SBA's congressional stakeholders who expressed views about their role in SBA's transformation process.

We conducted our work in Washington, D.C.; Phoenix, Arizona; Sacramento and Santa Ana, California; Miami, Florida; and Charlotte, North Carolina, between February and September 2003, in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution until 30 days after the date of this report. At that time, we will send copies of the report to the Ranking Minority Member of the Senate Committee on Small Business and Entrepreneurship, the Ranking Minority Member of the House Committee on Small Business, other interested congressional committees, the Administrator of the Small Business Administration, and the Director of the Office of Management and Budget.

¹⁸[GAO-03-669](#), July 2003.

We will make copies available to others on request. This report will also be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-8678, dagostinod@gao.gov or Katie Harris at (202) 512-8415, harrism@gao.gov if you or your staff have any questions. Major contributors to this report were Patty Hsieh, Kay Kuhlman, and Rose Schuville.

A handwritten signature in black ink, appearing to read "Davi M. D'Agostino". The signature is fluid and cursive, with the first name "Davi" being the most prominent.

Davi M. D'Agostino
Director, Financial Markets
and Community Investment

Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Ms. Davi M. D'Agostino
Director
Financial Markets and
Community Investment
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. D'Agostino:

Thank you for the opportunity to comment on your draft report "Small Business Administration: Progress Made But Transformation Could Benefit From Practices Emphasizing Transparency and Communication" (GAO-04-76). SBA will take into consideration your recommendations as it continues to plan for and execute its transformation efforts.

SBA's transformation has three major objectives to assist in fulfilling the Agency's mission: increasing the number of people in our field offices who are directly assisting small businesses, reducing the cost of SBA operations not directly related to assisting small businesses, and ensuring that key positions in all field offices are filled with capable professionals. As has been reflected in discussions with your staff, SBA must act now to address the imbalances in its workforce. The Agency is doing this through establishing alternate work sites within districts, centralizing or eliminating "back room operations," and more effectively managing its workforce so SBA staff can directly interact with the community more frequently. These changes will not adversely affect our products and services, but will allow us to better meet the needs of our clients.

After reviewing your draft report, SBA has several comments on the document and the recommendations you have put forward. SBA's workforce transformation plan, as initially presented to GAO and Congress in a July 2002 hearing, was an initial draft. This draft was based on findings by GAO, SBA's Inspector General and SBA's own internal audits. As you correctly stated in the draft report, the purpose of transformation is to make SBA a cost effective and cost efficient organization that successfully fulfills its mission. To accomplish this SBA is reengineering its processes and realigning its personnel and making maximum use of technology within the restraints of budgetary realities and Congressional mandates. By necessity, SBA's transformation plan needs to be flexible. The plan and subsequent timetable have continually been revised due to changing financial situations and Congressional intervention as well as analyzing what worked and didn't work in the pilots.

SBA disagrees with your assessment that it did not provide clear budget requests for transformation. In both SBA's FY 2003 and FY 2004 Budget Request and Performance Plan, the Agency clearly lays out its funding request for efforts under the transformation umbrella. SBA did change its budget format in FY 2004 to bring it more in line with the requirements of GPRA by integrating its budget with performance goals. This relates to SBA's most recent strategic



Appendix I
Comments from the Small Business
Administration

plan, released earlier this month, which we regret was released too late for your review. The new plan further integrates SBA's performance measures with outcomes and strategic goals, allowing a clear line of sight between all measures. SBA feels this strategic plan addresses your expressed belief that the goals of transformation are not directly tied to performance goals or SBA's strategic goals. SBA feels the new plan also better ties budgets to performance, addressing your concerns mentioned above.

SBA disagrees that it did not benefit from employee perspectives or attempt to gain employee support. SBA officials traveled to pilot district offices to explain on the Agency's plans for transformation, and as you note later in the report, SBA employees in the pilots expressed more support for the change. Also, senior Agency officials have been addressing the field staff since 2002 on transformation efforts and solicited comments on the Agency's well being in May 2002 during its district director's conference. In addition, SBA conducts weekly phone calls with the pilot district directors which include the Administrator or Deputy Administrator, the senior officials in headquarters involved with transformation, as well as the district directors and regional administrators of the pilot offices to communicate any changes, problems, and successes. District directors, in turn, have regular meetings with their employees. Comments and results are used in tailoring the plan to the varied districts' needs. To the extent practicable and beyond the requirements in the union contract, SBA has worked with its union to gain MOU agreements in going forward with different parts of the plan. Finally, SBA is expanding its efforts to keep its Congressional overseers informed of the progress and plans of transformation.

SBA believes it has already addressed draft recommendations 3 and 4 through the development of SBA's new strategic plan and the implementation of its new performance measurement system for its employees. The new performance system went into effect in October 2002 for supervisors and members of the SES and on October 1, 2003 for all remaining employees. SBA also believes that the opportunity is available for employees to raise their concerns to management through their district directors or immediate supervisor. SBA's senior management did engage district directors in the conferences it has had over the past 2 years on the transformation issue. These events have been, and will continue to be, open forums for district directors to express their ideas. It is also worth noting that the expansion of phase one of transformation will be to over 20 volunteer district offices.

Attached you will find some specific comments that SBA feels will enhance the accuracy of your report. Thank you for taking our views into consideration.

Sincerely,



Thomas Dumaresq
Chief Financial Officer

Attachment

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