

# Factors of Success and Failure in Coalition Lobbying

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Honors Capstone

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## INTRODUCTION

Coalition lobbying is one means in a large arsenal of strategies which organizations, companies and advocacy groups may use to achieve a legislative goal. This paper seeks to derive the factors that make up success and failure in an advocacy coalition. To accomplish this, the paper focuses on a case study of the Save the SBIR Coalition, a coalition in operation from August 2011 through the completion of the paper which the author had the opportunity to manage. This case study includes a literature review of previous efforts to evaluate coalition lobbying to expand on the analysis of the real coalition and an analysis of what coalition efforts were beneficial to the cause and what coalition activities hampered or hurt the cause.

The definition of a lobbying, as defined by the *ABA Lobbying Manual*, is “the efforts of groups and individuals to secure the enactment or defeat of legislation by their elected officials.”<sup>1</sup> This paper will be focusing specifically on the work of groups to make change within Congress. Coalition lobbying can be defined in a variety of ways; however, for the purposes of this paper a coalition will be defined as a collection of “interdependent people focused on advancing or opposing a particular issue.”<sup>2</sup> An effective coalition relies upon organized, informed members with functioning communications networks. However, a successful coalition need not necessarily achieve its goal—especially as the case study examined in this paper will unlikely be successful in achieving every aspect of all its legislative goals. Success in a coalition will therefore be defined as the ability of the Coalition to reach its audience and make gains for the issue it is promoting or opposing. To succeed

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<sup>1</sup> Luneburg, William V., Thomas M. Susman, and Rebecca H. Gordon. *The Lobbying Manual: A Complete Guide to Federal Lobbying Law and Practice*. Chicago: American Bar Association, 2009.

<sup>2</sup> "Coalition Building & Public Engagement: Two Key Concepts for Your Advocacy/Lobbying Efforts." *Advocacy vs. Lobbying, Coalition Building and Public Engagement*. Connecticut Association of Nonprofits Advocacy, 4 Apr. 2003.

in a Coalition is to not outright fail. A failure of the coalition would be measured by collapse, no issue movement or scandal.

## **CASE STUDY: SAVE SBIR COALITION**

### *Background*

In 1982, Congress created the Small Business Innovation Research Program (SBIR) with the *Small Business Innovation Development Act* (P.L. 97-219). The SBIR program was created to increase the participation of small, “high technology” firms in federal research and development efforts. Under the current authorization, every federal agency with a research and development budget of \$100 million or greater must participate in the SBIR program.<sup>3</sup> Currently, eleven federal agencies participate in the SBIR program including the Departments of: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Transportation, the Environmental Protection Agency, National Aeronautics and Space Association and the National Science Foundation.<sup>4</sup>

SBIR awards involve a three-phase process. In Phase I, awards of up to \$100,000 (for 6 months) are granted to conduct a feasibility study. If products demonstrate potential and meet the mission of the SBIR program, Phase II awards of up to \$750,000 (for one to two years) are granted to perform research and development. Phase III funding is directed at commercializing the product for private sector consumption.<sup>5</sup>

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<sup>3</sup> Schacht, Wendy H. "Small Business Innovation Research (SBIR) Program." *CRS Report for Congress*. Congressional Research Service, 26 Apr. 2011.

<sup>4</sup> "The SBIR Program." *SBIR.gov*. Small Business Administration. Web. <<http://www.sbir.gov/about/about-sbir>>.

<sup>5</sup> Schacht, Wendy H. "Small Business Innovation Research (SBIR) Program." *CRS Report for Congress*. Congressional Research Service, 26 Apr. 2011.

Despite its widespread popularity, reauthorization of the SBIR program has stalled in Congress and the program has operated on a series of short-term reauthorizations since 2008. The SBIR program was planned to sunset on September 30, 2008; however, the Small Business Administration determined that language from P.L. 110-235, to provide for an additional temporary extension of programs under the Small Business Act and the Small Business Investment Act of 1958, acted as a temporary extension of the program through September 30, 2009.<sup>6</sup> Since the first temporary extension of the program, the program has been temporarily extended 15 times by several bills and continuing resolutions. While the SBIR program has been extended numerous times over the years; notably, it has never been specifically reauthorized. On May 31, 2011 the House and the Senate—rather than passing a long-term reauthorization—moved to temporarily extend the SBIR program until September 30, 2011. Another temporary extension was passed through a Continuing Resolution to November 18<sup>th</sup> and then again to December 16<sup>th</sup>.

On March 9, the Senate Small Business and Entrepreneurship Committee favorably reported the *SBIR/STTR Reauthorization Act of 2011* (S. 493). The bill, similar to the short term reauthorization passed in December, reauthorizes the SBIR and STTR for eight years. Additionally, the bill includes provisions to allow small businesses which are majority owned by venture capital firms to compete for up to 25 percent of SBIR funds at the National Institutes of Health, National Science Foundation, and the Department of Energy. For other agencies, the threshold would be 15 percent.<sup>7</sup> The venture capital compromise is being lauded as one which will increase the number of innovative firms participating but limit their involvement to ensure that small businesses not backed by large firms are not edged out of the program.

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<sup>6</sup> “To provide for an additional temporary extension of programs under the Small Business Act and the Small Business Investment Act of 1958, and for other purposes.” (PL 110-235, May 23, 2008) *United States Statutes at Large* 122 (2008).

<sup>7</sup> To Reauthorize and Improve the SBIR and STTR Programs, and for Other, S. 493, 112 Cong. (2011).

In addition to the venture capital compromise, S. 493 increases SBIR set-aside amounts from 2.5 percent in FY2013 by 0.1 percent per year up to 3.5 percent in FY2023 and STTR set-aside amounts from 0.3 percent in FY2013 to 0.6 percent in FY2017. The Senate legislation also increases the award caps for Phase I and Phase II projects.<sup>8</sup>

On May 4, the Senate rejected a bid to limit debate on S. 493 in order to move to a vote on the legislation. The motion to invoke cloture was defeated by a vote of 52-44 or eight votes short of the 60 needed to cut off debate. Despite support for the underlying programs, the bill became a target for almost 150 unrelated amendments which lengthened debate and effectively stalled the legislation. Despite failure to pass a long-term extension in May, supporters of the bill remain committed to long-term reauthorization.<sup>9</sup> Following the failed cloture vote, Chairman of the Small Business and Entrepreneurship Committee Mary Landrieu said that “at some point, we will find a way to get this done.”<sup>10</sup>

In the House, two Committees—the Science, Space and Technology Committee and the Small Business Committee – have taken action on the SBIR/STTR reauthorization. On May 4, the Science, Space and Technology Committee favorably reported by voice vote the *Creating Jobs through*

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<sup>8</sup> Ibid.

<sup>9</sup> Schacht, Wendy H. "Small Business Innovation Research (SBIR) Program." *CRS Report for Congress*. Congressional Research Service, 26 Apr. 2011.

<sup>10</sup> "President Signs Another Short-Term SBIR Extension - 2011 - Washington Highlights - Government Affairs." *AAMC*. 27 May 2011.  
<<https://www.aamc.org/advocacy/washhigh/highlights2011/248798/senateapprovesanothershort-termsbirextension.html>>.

*Small Business Innovation Act of 2011* (H.R. 1425). On May 11, the House Small Business Committee also favorably reported H.R. 1425 by voice vote.<sup>11</sup>

Many have serious concerns with the House version of the reauthorizing legislation. One contentious aspect of the House bill is Section 106 which allows the Department of Health and Human Services, the Department of Energy and the National Science Foundation to permit firms majority owned and controlled by one or more venture capital companies, hedge funds or private equity firms to compete for up to 45 percent of SBIR funds.<sup>12</sup> For all other agencies, investment-backed businesses may compete for up to 35 percent of funds. Proponents of participation of venture capital owned firms assert that innovative companies are being barred from the SBIR program. Opponents of opening the program to venture capital owned firms assert that it would undermine the intent of the program—which is to provide funding to small business who do not have the ability to secure VC funding. The Senate version of the reauthorizing legislation seeks to resolve the venture capital issue and does so in a way that is pleasing to industry stakeholders and both parties in Congress. Some additional concerns include the extent to which program participants are required to report on their activities and results, duplicative awards and commercialization issues.

Additionally, during the Small Business Committee markup of the legislation Congressman Nydia Velazquez—supporter of opening up SBIR funding to venture capitalists—pushed several amendments which greatly change the scope of the legislation and which are non-starters in the Senate. One of Velazquez’s successful amendments changes Section 105 of the legislation to say that a small business may not receive an SBIR or STTR award if it “has received an aggregate dollar

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<sup>11</sup> Shindell, Rick. "SBIR Insider 8-22-11 Issue." *SBIR Gateway*. 22 Aug. 2011. <<http://www.zyn.com/sbir/insider/sb-insider08-22-11.htm>>.

<sup>12</sup> To Reauthorize and Improve the SBIR and STTR Programs, and for Other, H.R. 1425, 112 Cong. (2011).

amount of such awards in such fiscal year that exceeds 50 percent of the aggregate dollar amount of such awards received, in the preceding fiscal year.”<sup>13</sup> Velazquez’s second successful amendment adjusts Section 505 by placing a limitation on pilot programs which may receive funds. The amendment states that pilot programs may only occur if they are completed within 3 years and if the pilot program is not a continuation of, or based on, a previously established covered pilot program. H.R. 1425, as it stands, will likely be unable to pass the Senate due to the Velazquez changes, the treatment of venture capital and the effective elimination of Phase I awards.

Table I: S. 493 vs. H.R. 1425

<b>S. 493<sup>14</sup></b>		<b>H.R. 1425<sup>15</sup></b>
Award Limit	No Limit – Merit Based	Limits of SBIR Awards per year/company
Years (Section 101)	8 years	3 years
VC Percent (Section 106)	25% at NIH, NSF, DoE, and 15% at all other agencies (\$429.2 million)	45 percent at NIH, NSF, DoE and 355 at all other agencies (\$989.6 million)
VC Expansion (Section 106)	No Hedge Funds or Private Equity	All Hedge Funds and Private Equity Firms
Allocation	Increased from 2.5% to 3.5% delayed one year, .1 over ten years (\$273.5 million)	No Increase (\$0)
Program Phases (Section 105)	Preserve Phase I, II, III process	Allows Firms to Skip Phase I

<sup>13</sup> To Reauthorize and Improve the SBIR and STTR Programs, and for Other, H.R. 1425, 112 Cong. (2011).

<sup>14</sup> To Reauthorize and Improve the SBIR and STTR Programs, and for Other, S. 493, 112 Cong. (2011).

<sup>15</sup> To Reauthorize and Improve the SBIR and STTR Programs, and for Other, H.R. 1425, 112 Cong. (2011).



### *The Coalition*

The case study in question involves the period from August 2011 until the completion of this paper and follows the Save the SBIR Coalition. The Coalition comprises 27 small companies from across the country (they will not be named in this paper for confidentiality reasons). These businesses are those which have benefitted in the past from the SBIR program and which wish to continue to use the program to develop and commercialize new products which they would be hard pressed to do without support from the government or other investors.

### *The Issues*

The Save the SBIR Coalition was formed to protect the interests of the small businesses within the Coalition through advancing the Senate version of the reauthorizing legislation, S. 493. The Coalition also sought to blunt the impact of several provisions contained in the House version of the reauthorizing legislation, H.R. 1425, during negotiations between the two chambers. These Sections include: 105, 106, 505, and 101.

Section 105 would change the traditional phase process of the SBIR program to allow firms to skip Phase I—the feasibility stage of the program. The Coalition feels that a government program meant to spur innovation should not receive the significant Phase II funding without first proving feasibility. Moreover, the feasibility study is necessary to ensure that the government is not investing in bad projects or technology that does not have the capability to make it to the commercialization Phase. While the supporters of the ‘leap-frogging’ section believe that the provision would further open the SBIR program to companies which do not receive Phase I grants but otherwise might be meritorious, the Coalition fears that skipping Phase I will merely undermine the merit based nature of the program and lead to investments in second-rate technology.

Moreover, enacting Section 105 and ‘leap-frogging’ Phase I of the SBIR program will have negative consequences for tax payers. “Skipping Phase I means that the government would be spending \$1 million of taxpayer dollars and a wait time of up to two years to find out whether a technology was promising, instead of \$150,000 and six months.”<sup>16</sup> The SBA conducted a pilot SBIR program in the 1970s which resulted in the SBIR program being modeled to contain a number of tiers of federal investment levels.<sup>17</sup> This guarantees that—as in the private sector—the federal government is weighing the risks of making investments so as not to harm the taxpayer. Implementing Section 105 would undermine this structure and put the tax payer at risk for larger sums without assurance that the technology is economically and technically feasible.

Section 505 would limit the award dollars a single small company may competitively win. Section 505 states that a small business may not receive an additional SBIR award in a fiscal year if the small business has: a) “received an aggregate dollar amount of such awards in such fiscal year that exceeds 50 percent of the aggregate dollar amount of such awards received, in the preceding fiscal year;” or b) “received an aggregate number of such awards in such fiscal year that exceeds 50 percent of the aggregate number of such awards received, in the preceding fiscal year.”<sup>18</sup> The Coalition feels this will stymie innovation by forcing agencies to pass on innovative technologies from repeat firms and fund less successful companies.

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<sup>16</sup> “Letter to Small Business Committee Leadership.” *United States Senate*. October 20 2011.

<sup>17</sup> “SBIR/STTR Program Overview.” Office of Investment and Innovation. Small Business Administration. Web. <<http://www.sbir.gov/about/about-sbir#seven>>.

<sup>18</sup> To Reauthorize and Improve the SBIR and STTR Programs, and for Other, H.R. 1425, 112 Cong. (2011).

By one analysis, California would lose approximately 41 SBIR awards each year after Section 505 became law.<sup>19</sup> As the average award in California is \$330,000,<sup>20</sup> this would mean that approximately \$13.4 million would be lost—in California alone—if Section 505 were to be enacted.<sup>21</sup> This represents a snap shot of the detrimental effects which would occur if Section 505 were successful. Section 505 would arbitrarily limit the number of awards that organizations can win and would seriously undermine the merit-based principles that make the SBIR program so successful. For example, the Department of Health and Human Services may wish to fund a small company who is researching a drug to counter the effects of certain cancers; however, if Section 505 were enacted, and this company had received past awards, they could not receive a grant for research and development and a less deserving company gains the funding. Arbitrary award caps will impede the growth of small businesses and result in the federal government adopting "second best" solutions as quotas bar the best participants.

Section 101 is the reauthorization term which is 3 years in the House legislation and 8 years in the Senate legislation. As the SBIR program has been funded on a series of short-term extensions, the Coalition believes that this relatively short reauthorization period would provide additional uncertainty for firms participating in the program, agencies and outside funders.

Section 106 is one of the most problematic House provisions. Section 106 would greatly increase the amount of funds at each agency which venture capital, hedge and private equity funds may compete for. The Coalition fears that this provision will crowd out smaller companies which cannot find funding elsewhere—undermining the goal of promoting small business innovation. Section 106 also

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<sup>19</sup> Confidential report provided to SBIR Coalition by Technet

<sup>20</sup> "State Indicators: Science and Technology in the Economy - US National Science Foundation." National Science Foundation. 2010. <<http://www.nsf.gov/statistics/seind10/c8/c8s6o49.htm>>.

<sup>21</sup> "Past Awards." SBIR.gov. Small Business Administration. Web. <<http://www.sbir.gov/past-awards>>.

opens up the SBIR program to not only venture capital companies but to hedge funds and private equity companies as well. The Save SBIR Coalition supports the historic Senate compromise contained in S. 493 which, the Coalition feels, would allow more innovative firms to participate in the program while limiting their involvement so that small businesses not backed by large firms are not forced out of the program.

An analysis of the habits of venture capitalists found that “only 18 percent of all US venture capital invested went to seed and early stage firms while 82 percent went to later stages of development that are lower risk.”<sup>22</sup> This statistic reflects the critical need to maintain the SBIR program as a small business program—venture capital will not meet the needs of small, high technology firms and allowing too much venture capital participation will undermine the purpose of helping small entities.

## The Process

### *Structuring the Coalition*

In order to describe the processes used by the Save SBIR Coalition since ML Strategies was hired in August, the literature review has been combined with the description of Coalition lobbying activities to provide depth to the description and inform and critique the strategic choices that were made. It is worth noting that there has yet to be a significant scholarly investigation of *coalition* lobbying. Thus the literature review will focus on four pieces of work that can build on decisions made by the coalition and provide additional insight onto why the decisions was an ultimate factor of success or of failure.

When ML Strategies was hired in August to lead the Save SBIR Coalition, the Coalition had already

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<sup>22</sup> Freear, John; Sohl, Jeffery and Wetzel, William Jr. “Angles on Angels: Financing Technology based Ventures: A Historical Perspective.” *Venture Capital*. 2002.

been working with two other organizations, a communications firm and a lobbying firm based outside of Washington, DC.<sup>23</sup> The first challenge ML Strategies confronted in terms of leading the Coalition was dealing with existing procedures—which were often overly complicated and confusing—for sharing information between Coalition members and for keeping the organization organized. One of the two original firms fired was a communications firm based in Boston. This firm had developed a number of highly complex organizational documents for internal Coalition use which confused the members of the Coalition and ML Strategies as a new presence in the organization.

Before ML Strategies was hired by the Save SBIR Coalition, there was little success, in part, because no one knew what was going on. They could not keep track of their outreach to Congress in an organized manner. They could not keep track of their outreach to press outlets in an organized manner. They could not communicate to Coalition members the long-term strategy and they failed to communicate on a regular basis with informational updates and intelligence. Nor did the Coalition have a leadership structure to yield efficient decision making.

Initially, it is surprising to learn that the most important thing a Coalition can do to be successful is to have a clear organizational and leadership structure, record keeping process and information sharing guidelines. However, without the most basic organizational tools it is impossible to translate goals into action items. The first thing ML Strategies did when it took over the Save SBIR Coalition was to institute regular conference calls with all of the Coalition on a weekly basis and set up the expectation for as needed stakeholder calls with the decision leaders of the Coalition. By doing this we took a large step toward solving the problem of the lack of information sharing and the inability

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<sup>23</sup> Note: for the purposes of this paper the names of other lobbying firms and of non-public key political actors will not be used for confidentiality reasons.

to make quick and informed decisions at the leadership level of the Coalition. Second, ML Strategies changed the way in which the Coalition tracked Congressional outreach and did away with a number of superfluous spreadsheets designed to track minutia of Coalition operation. To fill any potential gaps left by getting rid of these documents, ML Strategies instituted as needed client alerts to provide information to the Coalition and as needed action alerts to mobilize coalition members.

In “The Concept of ‘Coalition’ in Organization Theory and Research” the authors opine that the default setting for coalitions is one which lacks formal internal structures and organization. The authors state that, due to the temporary nature of coalitions, they will lack “their own formal structure,” “a hierarchy of formal, legitimate authority,” and thus have more difficulty in resolving internal conflict and making decisions.<sup>24</sup> While it is very true that lacking formal leadership and organizational structures leads to strife, conflict and inefficiency it is not true that coalitions will always lack these processes. One must merely make the effort to develop procedures, guiding documents and a leadership structure.

#### *Early Stages of Coalition Outreach under ML Strategies*

Following the initial ‘growing-up’ period of the Save SBIR Coalition, ML Strategies began its initial outreach to the Hill, which involved meeting with key players among Hill staff and Members of Congress. ML Strategies identified the below Members and their staffs as champions and/or targets on the Hill:

House	Senate
Edward Markey (D-MA)	Mary Landrieu (D-LA), Chairman, Small Business Committee

<sup>24</sup> Stevenson, William B., Jone L. Pearce, and Lyman W. Porter. "The Concept of 'Coalition' in Organization Theory and Research." *The Academy of Management Review* 10.2 (1985): 256-68.

Niki Tsongas (D-MA)	Olympia Snowe (R-ME), Ranking Member, Small Business Committee
Peter Welch (D-VT)	Jeanne Shaheen (D-NH)
Buck McKeon (R-CA), Chairman, House Armed Services Committee	Scott Brown (R-MA)
Sam Graves (R-MO), Chairman, Small Business Committee	

While there were many more Members and staff members who played crucial roles in the success and failure of Coalition goals, these were among the first meetings ML Strategies set up for ourselves in order to reinforce existing relationships and to establish new relationships in these offices. From these initial meetings, the Coalition was able to secure the promise of two letters aimed at panning H.R. 1425 and supporting S. 493 and the Save SBIR Coalition.

The most relevant piece of work to the question of how to develop an effective coalition is Paul Sabatier and Hank Jenkins-Smith's analysis of the Advocacy Coalition Framework (ACF). While it is true that this article does not relate directly to the question of what factors yield success and failure in coalition lobbying, it does provide a framework for looking at the place coalition advocacy holds in policymaking. The ACF theory updates the "stages heuristic" political science model. Stages heuristic was developed in the 1960s and 1970s and breaks down the various levels of policymaking into "sub-processes" such as problem identification, policy solution, implementation and assessment. The authors of ACF theory rightly point out that this framework for policy development and analysis is highly limiting as it does not identify the factors which drive policymaking nor does it identify linkages between groups, policy and other functions.<sup>25</sup>

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<sup>25</sup> Sabatier, Paul A., and Hank C. Jenkins-Smith. "Evaluating the Advocacy Coalition Framework." *Journal of Public Policy* 14.2 (1994): 175-203.

In order to update the stages heuristic process for examining public policymaking the authors set out to evaluate the ACF theory as an alternative means of policymaking analysis. The ACF theory is useful for the purposes of this paper because it includes a nod to the organizations formed around a policy goal. The authors describe the ACF theory as composed of four principles; however, the guiding principle of interest for this analysis is the ACF's recognition that policymaking is more than the governmental institution where legislating occurs. Policy making is "the interaction of actors from different institutions who follow, and seek to influence, governmental decisions in a policy area." The authors flush out their theory of how coalitions should impact policymaking:

"At any particular point in time, each coalition adopts a strategy or strategies involving the use of guidance instruments (changes in rules, budgets, personnel, or information) to attempt to alter the behavior of one or more governmental institutions in order to make them more consistent with its policy objectives. Conflicting strategies from various coalitions are normally mediated by a third group of actors, here termed policy brokers, whose principal concern is to find some reasonable compromise which will reduce intense conflict. The end result is one or more governmental programs, which in turn lead to policy outputs."<sup>26</sup>

This quotation provides a good starting point for describing the initial stages of Save SBIR Coalition outreach under ML Strategies. In order to be successful, as implied by the ACF theory, coalitions must have four things: a clear policy goal, a strategy designed to impact that policy goal, a means in which to interact with "policy brokers" (i.e. Congressional Staff, agency staff, Members of Congress etc.) and a means to evaluate policy outputs. The clear policy goal was never a problem for the Save SBIR Coalition as they were clearly dedicated to supporting S. 493 and defeating H.R. 1425.

Establishing good relationships with 'policy brokers' on the Hill became the most important part of the Coalition's strategy. Luckily for the Coalition, there was a number of dedicated Hill staff on the

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<sup>26</sup> Ibid.



side of the Coalition already in place and advocating for S. 493. By establishing good working relationships with staff negotiating with the House on the Senate Small Business Committee and with key champions in the House, ML Strategies was able to: gain valuable information for the Coalition; stay abreast of the latest negotiations between the House and Senate, influence the policy debate as negotiators came to ML Strategies and the Coalition for strategy advice and policy input and increase visibility of the Coalition.

Good relationships with the policy brokers running the issue on the Hill also enabled the Coalition to participate in the drafting of three crucial Dear Colleague letters which circulated in the fall. Not only did Members agree to circulate two of these letters at the suggestion of ML Strategies but, the staff responsible for each of these three letters sought out the Coalition with advanced copies seeking input on language. The relationships that the Coalition and ML Strategies developed with policymakers and staff were instrumental in achieving many of the early successes of the Coalition. Moreover, in particular in regards to the October 11<sup>th</sup> letter to Chairman Graves and Ranking Member Velazquez, it would have been impossible for the Coalition alone to achieve the level of co-sponsorship it had. Through requests from Coalition members to their Congressmen and through staff to staff lobbying the letter was finalized with 24 signatories.

<b>Letters on the SBIR Program (Appendix B)</b>
September 9 <sup>th</sup> – Representative Markey, Tsongas, Bass and Welch
October 11 <sup>th</sup> – Representatives Markey, Tsongas, Welch, DeLauro, McKinley, Manzullo, Capps, Richardson, Courtney, Speier, Polis, Tierney, Keating, Tonko, Farr, Posey, Langevin, Waters, Murphy, Cicilline, Stark, Fudge, Heinrich, Grijalva and Hinojosa.
October 20 <sup>th</sup> – Senators Shaheen, Brown, Cardin, Lieberman, Kerry, Ayotte, Enzi, Thune, Blumenthal, Pryor

Sabatier and Jenkins Smith also opine that advocacy coalitions are intergovernmental organizations. This is notable because a successful coalition must leverage support from within the body they are lobbying. One of the greatest boons to any lobbying campaign or coalition is to already have support in Congress or wherever institution the organization seeks to impact change. However, it is difficult to classify the existence of support as a factor of success because it is largely out of the control of the coalition. The coalition may seek to win over allies and build support within the institution they lobby; however, the prior existence of support—while incredibly important—is more of a gift rather than a causal factor.

Additionally, the authors evaluating the ACF theory state that in order to have a coalition there must be a means of evaluating the policy outputs which are achieved at the end of policymaking. This point is particularly important as the lobbying on behalf of the Save SBIR Coalition sought to effect ongoing negotiations between the House and Senate Small Business Committees. In the case of the SBIR campaign, the Coalition was born after a number of members from the SBIR community assessed the House bill reauthorizing the program and determined it to be detrimental to the program and not in their best interests. Additionally, throughout the negotiation process, each time the House returned a Senate counter-offer, it was important to rationally evaluate the offer to see if it was something the Coalition could support. This processes of identifying wins and losses and evaluating next steps is crucial to any successful coalition

### *Persuasion vs. Pressure*

Throughout the negotiations between the House and the Senate Small Business Committees, the Coalition had to play the delicate role of intermediary between the House and Senate negotiating sides. “A Game-Theoretical Analysis of Lobbying and Pressure” provides an economic analysis of how interests groups or coalitions use lobbying versus pressure to influence the debate. The paper finds that “in getting an established position ‘actions speak louder than words,’ and that it is necessary to ‘show them your teeth first!’ Once the interest group has an established position, the group may be forced to maintain this position through lobbying.”<sup>27</sup>

This assertion is interesting because, although the model used to arrive at this conclusion closely resembles the experiences of the Save SBIR Coalition as it grew and developed a lobbying strategy, the Coalition did not follow the article’s guidance to “show teeth.” While the Save SBIR Coalition did seek to put political pressure on policymakers—especially Chairman Graves and Ranking Member Velazquez—it did not do so in the way defined by the paper which defines pressure as inflicting as cost on the lawmaker.<sup>28</sup> Yes, the Coalition did support press releases and Congressional letters which urged Graves and Velazquez to change their position; however, there was no threat of retaliatory action or an effort to hurt them in other ways. In fact, threatening Graves and Velazquez in this way would likely have ruined the Coalition’s special position as the go-between of the House and Senate negotiating teams. ML Strategies was able to develop relationships with both the House and the Senate small businesses staffs and were integral in relaying information, floating new compromises and acting as a good faith intermediary.

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<sup>27</sup> Sloof, Randolph, and Frans Van Winden. “Show Them Your Teeth First!: A Game-Theoretical Analysis of Lobbying and Pressure.” *Public Choice* 104.1/2 (2000): 81-120.

<sup>28</sup> Ibid.

One example of how aggressive lobbying tactics ended up backfiring was in a Senate offer to the House endorsed by the Coalition and proposed by ML Strategies. This offer went far beyond what the Senate had been pushing for in terms of allocation and other key issues to the Coalition and was a strong negotiating stance for the Senate staff. However, the House was ‘offended’ by the offer and saw it as an insult that they Senate negotiating staff would ask for so much. While many Coalitions and interests groups may benefit from a tough and aggressive lobbying plan, the Save SBIR Coalition had to exercise caution and tact to keep both sides happy and talk the House down.

### *Media and Press*

Rather early on in the Save SBIR Campaign, ML Strategies found itself in charge of press and media relations as the communications firm that originally handled these areas was dismissed by the Chairman of the Coalition. ML Strategies revamped the Coalitions Facebook page<sup>29</sup> and took over the responsibility of drafting and disbursing press releases. Originally, we did not have access to a press list of the small business and innovation writers at national and key local outlets. Lacking such a list, and without access to a paid distribution site such as PR Newswire or MarketWatch, the first press release ML Strategies released received no national news coverage and only one local paper picked up the story. Not only was this a wasted opportunity for increasing Coalition visibility, it underscores the importance of having a media plan in place. The Coalition needed a means by which to declare victories, shame members and congratulate champions. Thus, when it came time to send out another press release we cooperated with our Boston office for assistance in distributing the release which was substantially more successful.

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<sup>29</sup> [www.facebook.com/SaveSBIRCoalition.com](http://www.facebook.com/SaveSBIRCoalition.com)

### *Moving Forward*

Currently, the Save SBIR Coalition is looking closer to success than ever. While the House and the Senate have yet to reach a compromise on final reauthorization language things are moving in a positive direction for the Coalition. The week of November 28th, Senators Mary Landrieu and Olympia Snowe filed a bipartisan floor amendment (S. Amdt. 1115) to the National Defense Authorization Act (NDAA) for Fiscal Year 2012 (S. 1867) which folds S. 493 into the underlying defense authorization. The Amendment is meant to act as a placeholder in which to insert a final deal between the two chambers. However, it has become an important bargaining chip toward a final deal which closely resembles S. 493.

Moving forward, the finalization of the SBIR Program reauthorization can go a number of ways. 1) The House and the Senate will come up with a final deal before the program is set to expire on December 16<sup>th</sup>. This could either be substituted into the National Defense Authorization by stripping S. 493 and inserting new language or by passing a standalone SBIR Reauthorization bill. However, it is more likely the amendment language would be stripped and new language inserted as the managers of the Defense Authorization have agreed that a final SBIR deal can be included as a germane amendment to the Defense Authorization. 2) The supporters of the SBIR Senate language could seek to jam the amendment with S. 493 through the House Armed Services Committee and the Senate Armed Services Committee. This is a more risk strategy but definitely possible. In order to be successful, the Chairman and Ranking Member of both Armed Services Committees (Representatives Buck McKeon and Adam Smith and Senators Carl Levin and John McCain) would have to agree to include the original amendment without a House-Senate deal. The Coalition believes this is possible as McKeon has previously expressed concerns with H.R. 1425 to Chairman

Graves and Ranking Member Velazquez. Additionally, Levin is a cosponsor of the amendment and McCain included a pet provision in the amendment concerning venture capital participation.

In order to help ensure the success of pushing S. 493 through the House with the Defense Authorization (if House and Senate stakeholders and the Coalition choose to pursue that route), the Coalition has already drafted a letter to Congressional Leadership (Speaker John Boehner, Minority Leader Nancy Pelosi, Majority Leader Harry Reid and Minority Leader Mitch McConnell) urging them to do whatever is necessary to reach a long-term reauthorization of the SBIR program before expiration on December 16. The letter is currently being circulated to small businesses and SBIR firms throughout the country with the goal of achieving at least 100 signatories. There is also a press conference in development to announce the letter with key signatories and champions on the Hill.

### **FACTORS OF SUCCESS**

By examining the Save SBIR Coalition as a case study on how to build a successful coalition has yielded five general principles which are necessary for a successful campaign: 1) a clear structure and framework for the coalition including information sharing, leadership hierarchy and decision making process; 2) goals that have been outlined and agreed upon by the leadership of the Coalition; 3) Consensus on a final strategy to achieve these goals; 4) a means to evaluate steps forward in strategy; and 5) a means to advertise successes and declare victory.

As pointed out by the analysis of “Evaluating the Advocacy Coalition Framework,” and exemplified by the relative inability of the Coalition to function before ML Strategies was hired, a decision making framework with a leadership hierarchy and communications goals and processes is necessary to increase the likelihood of success of a Coalition. If a group of people cannot organize themselves,

it is unlikely they will succeed in organizing a strategy or movement that will change the minds of Members and yield positive policy goals.

At one point, the Save SBIR Coalition ran into the problem of some members wishing they had made additional sections of H.R. 1425 targets in addition to the ones decided upon by the Coalition. This caused difficulties as the Senate negotiating team began to see success in the areas the Coalition cared about as a faction within the Coalition saw this as a sign to ask for more. Nevertheless, as the Coalition had agreed upon goals, carefully outlined in a position paper which was used in Hill meetings it was clear that they would not expand their message to accommodate the faction. Having a clear and articulate message is not only necessary to ensure the message is received by targets but also for clarity and ease of function within the Coalition itself.

Similarly, consensus on a final strategy is necessary in order to ensure consistency of message and approach. If the coalition is allowed to continue to edit itself, the result will be an incoherent message and confusion. This is not to say that coalitions should not respond to adapting situations with new ideas and new strategies as the political environment changes. It is important to have a feedback mechanism to evaluate the success of messages and of strategies. However, it is just as important not to get lost in constantly revising policy positions, goals and strategies.

Finally, it is necessary to have a means—be it through press tactics, grass tops, social media etc—to broadcast successes and declare victories. The Save SBIR Coalition learned the hard way how a lost opportunity at advertising success can impact a coalition. From the onset, there must be a plan in place for media strategy. This will ensure that the coalition will be able to leverage successes on Capitol Hill into additional visibility for the coalition and the issue. The ability to declare success in a

public way is also incredibly important for creating the appearance of success. When S. 493 was added to the Defense Authorization the headlines did not read “Possible Major Next Step In SBIR Reauthorization,” they taunted the success of Senators Landrieu and Snowe and announced ‘Passage of Key Small Business Program in Senate.’ Creating the illusion of victory is just as important as victory itself.

### **FACTORS OF FAILURE**

Having already discussed what makes a coalition success, it would be easy to simply say without organization, structure, goals, strategy, and information networks a coalition would fail. However, at any one point in the path toward reauthorizing the SBIR program, the Save SBIR Coalition was missing one or all of these factors. The factors of success described above are ways of increasing the likelihood of success of a coalition (and relieving major headaches of coalition managers).

Nevertheless, factors of failure are far less tangible but can include: 1) Not having productive relationships with policy brokers; 2) pursuing a highly negative strategy; and 3) not being plugged into the issue.

While a positive relationship with policy brokers could have been listed above as a factor of success—it definitely plays an immense role in the ability of outside actors to enact legislative change—it seems more appropriate to stress that failing to gain support of key staff and members will likely doom the Coalition. Without the support of key negotiating parties in the Senate who cared about the issue and wanted success as much as the Coalition, it is unlikely the SBIR issue would have progressed to the point it has. The Save SBIR Coalition was especially lucky to hire ML Strategies as many of these relationships were already in place within the firm.



Second, using a highly negative strategy can be detrimental to success of a coalition. While not always true, in the case of the Save SBIR Coalition, the use of a highly negative or ‘finger-pointing strategy’ would likely have sunk the coalition. As described above in the processes description of the Coalition, the negotiations between the House and Senate on final reauthorizing legislation were highly fraught with much ill will. The Coalition was able to step in, almost between the two negotiating sides in an effort to avoid rash political calculations. By deploying an aggressive strategy, the Coalition would have alienated House negotiators (who would have been the target of a smear campaign) and driven the Senate negotiators to distance themselves from the Coalition. Moreover, at a time of national anxiety due to unemployment and low growth, a negative strategy would have exacerbated these fears.

## **CONCLUSION**

On the whole, there will always be ways in which to save a struggling coalition, such as bringing in new representation, changing strategy and instituting more formal leadership structures. However, the truly important factor of success is the ability to recognize when a coalition is failing to meet its policy goals and identify where the problem lies.

# SAVE SBIR

## SBIR: Key Asset for Job Creation and Recovery

Our objective is to reauthorize SBIR legislation.

As Congress considers a long-term reauthorization of the Small Business Innovation Research (SBIR) Program, we wanted to make you aware of certain policy concerns within the research and development community related to the proposed SBIR legislation in the House.

**The SBIR program has a proven track record of creating jobs and providing return on federal investment.** SBIR yields new technologies, new business and provides a vital resource in expediting program development across many federal agencies. SBIR participants save the government untold sums of money that might have otherwise been allocated to large contractors or spent developing technologies internally. Since the SBIR program began in 1983, there have been 90,000 "Phase I" awards and 29,000 "Phase II" awards. The SBIR program has yielded 77,000 patents, 1.5 million jobs and 800 corporate acquisitions.

Small businesses drive innovation, but they don't receive anywhere near the federal investment that large companies see. Presently, small businesses in the US receive only a small percentage of federal research dollars, yet they generate 38% of all patents, according to the National Science Foundation. As in past decades, when the R&D 100 Awards are announced this year one-quarter of those honors will go to technologies developed under SBIR.

The House Committee on Small Business recently reported HR 1425, a bill to provide for the long-term reauthorization of SBIR. While we appreciate the Committee's effort to pass legislation before the current SBIR authorization lapses in September 2011, **the bill as written could have negative, unintended consequences for the US economy.**

**We support the landmark Senate compromise**, which is also supported by small businesses around the country.

## Concerns with HR 1425

The legislation reported by the House would fundamentally change certain key elements of the SBIR program across the federal government. We respectfully encourage the House Members to pursue a compromise that better reflects the Senate's position on the issues cited below:

- **The House bill could eliminate much of the "merit based" nature of the program** by limiting the number of awards that small businesses can win. We are concerned that with such limits in place, agencies would be barred from funding the most innovative and promising technologies in favor of ideas put forward by companies that have yet to meet their quota.
- **The House bill proposes to eliminate the critical "Phase I" of the SBIR funding process.** This is the phase where new technology is proven feasible, before additional funding is awarded. The intent of SBIR is to fund innovation, and the best of what technology developers have to offer. No technology should be given significant federal funding before it proves its feasibility.
- While both the House and Senate versions of SBIR reauthorization open the door to participation in the program by venture capital backed organizations, we believe the **House bill goes too far in this regard and undermines the spirit of the SBIR program by opening it up to private equity and hedgefunds.** Venture capital and private equity backed small businesses have already accessed capital from the markets and their technologies are already funded to some extent. The federal government should be reserving SBIR funds for those small businesses that focus primarily on technology, rather than early stage capital.

## Comparison: HR.1425 & S.493

	S.493	HR.1425
<b>Award limit</b>	Merit based – no cap	Limits on SBIR awards/year for a company: • Removes merit based review, cornerstone of program
<b>SBIR allocation %</b>	Increase 2.5% to 3.5% over 10 years Budget neutral	No change
<b>STTR allocation %</b>	Increase 0.3% to 0.6% Greater industry– university role	No change
<b>VC-majority ownership (unlimited angel and minority VC ownership)</b>	Compromise from previous administration VC majority ownership limited: • 25% NIH, NSF, DOE \$ • 15% in other Agencies • Cannot be >50% foreign investors	Working to stretch the compromise VC majority ownership less limited: • No more than 45% of NIH, NSF, DOE \$ • No more than 35% in other Agencies • No limit on foreign investors • Hedge funds and private equity companies treated as VCs
<b>Governance</b>	Continues SBA oversight	Change oversight to NIST/President's OSTP
<b>Award sizes</b>	Phase I to 150 K max • 1 Phase II up to \$1MM w + 50% max	Phase I up to \$250K max • Multiple Ph II up to \$1MM w +200% max+ • "Mega" awards limit the number of Phase I seeds
<b>Phase I</b>	Phase I required	Phase I can be skipped • Remove stage-gated "industry approach"
<b>Reauthorization</b>	8 years	3 years • Why? Proven program after 27 years
<b>Support</b>	Supported by small business and venture capital communities	Not supported by small business community





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## The VC Marketplace Has Spoken! The SBIR Program Is Working – Times 5!

A recent analysis by Ann Eskesen, President of Innovation Development Institute of Swampscott, MA ([www.innovation.com](http://www.innovation.com)) shows that the Venture Capital industry has invested from 11.8 to 14.0 percent of its total investments over the years from 2002 to 2008 in SBIR companies.<sup>1</sup> What is remarkable about this analysis is that SBIR companies only receive 2.5 percent of Federal R&D funds. This demonstrates that the most financially astute members of our entrepreneurial investment community believe strongly enough in SBIR companies' research that they are willing to invest around 5 times the ratio of SBIR Federal research funding. The IDI data shows that there have been over 1400 VC investments in SBIR companies.

The VC industry has lobbied vigorously to change the SBIR legislation to permit companies that are majority-owned by VC companies to become included in the SBIR program. SBTC has supported the compromise Senate SBIR re-authorization bill, S-493, which includes limited VC-majority ownership. We trust the VC community will honor their pledge to support S-493.

The SBIR and STTR programs have shown remarkable efficiencies in converting taxpayers' Federal R&D research funding into commercial results as shown below:

1. The SBIR program is 35 times more effective than universities in generating patents per dollar of Federal R&D funding, and at least 10 times more effective in creating cash returns on the Federal R&D investment.<sup>2</sup>
2. Strikingly, there are now more scientists and engineers working in smaller companies (38%) than in any other sector. Some 27% of U.S. scientists and engineers currently work for large companies, 16% for universities, 13% for government, and 6% for nonprofits.<sup>3</sup>
3. "The results show that these SBIR-nurtured firms consistently account for a quarter of all R&D 100 award winners – a powerful indication that the SBIR Program has become a key force in the innovation economy of the United States."<sup>4</sup>
4. From the PL-97-219 House and Senate Findings and Purpose – "(3) small businesses are among the most cost-effective performers of research and development and are particularly capable of developing research and development results into new products."<sup>5</sup>
5. Of particular interest is the high commercialization rate for the SBIR program. The GAO and NRC studies both found that SBIR and STTR projects have between a 30% and 50% commercialization success – amazingly high compared to university funded projects...<sup>6</sup>
6. The NRC study found that many agency management personnel supported the SBIR program, particularly in DoD where they were found to permit much faster deployment of the latest technology to the fighting forces (see Box 1, page 50 of the NRC report).<sup>7</sup>

<sup>1</sup> Private communication between Ann Eskesen and Terry Bibbens, August 30, 2011. IDI has the most complete and robust database of SBIR companies in the world.

<sup>2</sup> Testimony before the Senate Small Business and Entrepreneurship Committee on February 17, 2011, by Jere W. Glover, Executive Director, SBTC.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid; Fred Block and Matthew Keller, *Where Do Innovations Come From? Transformations in the U.S. National Innovation System 1970-2006*, Information Technology and Innovation Foundation, July 2008.

<sup>5</sup> Testimony before the House Small Business Committee on March 16, 2011, by Michael R. Squillante, Ph.D., VP Research of RMD, Watertown, MA, Chairman of the Board of SBTC.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid. + *An Assessment of the Small Business Innovation Research Program*, National Research Council, National Academies Press; Charles W. Wessner, *Editor*, Committee on Capitalizing on Science, Technology, and Innovation; 2008; see: <http://www.nap.edu/catalog.php?recordid=11989>



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## The SBIR Program – It Is Working!<sup>1</sup>

The SBIR program is now 28 years old, with tens of thousands of awards and many studies. What are the conclusions? How is it being used by the SBIR agencies? Is it successful in the commercialization of advanced technology? Is it being copied anywhere else in the world? Is it relevant in today's economy?

- The most recent and most intensive study was a six-year analysis by the prestigious National Research Council of the National Academies published in 2008 by National Academies Press,<sup>2</sup> which concluded:  
“By strengthening the SBIR program, the Committee believes that the capacity of the United States to develop innovative solutions to government needs and promising products for the commercial market will be enhanced.” (Paragraph 1.6, page 53)
- SBIR companies have produced approximately 25% of key innovations in the past 10 years— with only 2.5% of the Federal R&D extra-mural budget.<sup>3</sup> The 11 agencies participating in the SBIR program have adapted the SBIR program to their particular missions with considerable success. (A Google search of “SBIR Success Stories” provides over 30,000 returns.) See SBIR Success Stories at [www.sbtc.org](http://www.sbtc.org).
- The commercialization success of the SBIR program is unparalleled in Federal R&D programs with its focus on the Phase III production outcome. According to the NAP study, “. . . approximately 30-40 percent of projects generate products that do reach the marketplace.” (Page 129) This is further exemplified by the very high rate of patents generated by SBIR firms compared to universities and large businesses – 38% of U.S. patents for small business (with < 4% of the Federal R&D budget); 3% for universities (with 28% of the budget); and 55% for large businesses (with 36% of the budget).<sup>4</sup> For universities, it is “publish or perish.” For small businesses, it is “patent and produce products or perish.” These commercialization efforts produce products, jobs and tax revenue to help pay for our universities.
- The NAP study also found that the following countries have adopted an SBIR-type program – Sweden, Russia, The United Kingdom, The Netherlands, Japan, Korea, Taiwan and other Asia countries (Page 54). A European Union policy paper has a goal of 15% of EU R&D funding to SMEs.<sup>5</sup>
- Further, the NAP study found that the SBIR program builds meaningful bridges to universities:  
“. . . about a third of all NRC Phase II and Firm Survey respondents indicated that there had been involvement by university faculty, graduate students, and/or a university itself in developed technologies. (Page 64) . . . These data underscore the significant level of involvement by universities in the program and highlight the program's contribution to the transition of university research to the marketplace.” (Page 65)
- SBTC believes that this partnership between universities and small business is an important economic multiplier that is unique to the U.S. innovation strategy. We have always strongly supported this partnership throughout the entire 28-year history of the program.<sup>6</sup> We see the important successes that these strong university/small business partnerships have created in Silicon Valley, Route 128, San Diego, Research Triangle Park, Ann Arbor, and others across the country. The U.S. needs more such programs.
- The importance of these partnerships is reinforced by the NAP study of 2002, wherein they state:  
“Public-private partnerships, involving cooperative research and development activities among industry, government laboratories, and universities, can play an instrumental role in accelerating the development of new technologies from idea to market.”<sup>7</sup>
- U.S. universities have produced 119 Nobel Laureates in the past 25 years, and they graduate the brilliant scientists and engineers that our innovative companies need. Small companies introduce the innovative products to the marketplace that keeps the U.S. in the forefront of technology. We need this partnership.

<sup>1</sup> From Mike Squillante, SBTC Board Chair Testimony, March 16, 2011, before the House Committee On Small Business, Appendix D.

<sup>2</sup> *An Assessment of the Small Business Innovation Research Program*, National Research Council, National Academies Press; Charles W. Wessner, Editor, Committee on Capitalizing on Science, Technology, and Innovation; 2008; [http://www.nap.edu/catalog.php?record\\_id=11989](http://www.nap.edu/catalog.php?record_id=11989)

<sup>3</sup> *Where Do Innovations Come From? Transformations in the U.S. National Innovation System, 1970-2006*, published by THE INFORMATION TECHNOLOGY & INNOVATION FOUNDATION, Washington, DC July 2008.

<sup>4</sup> *A New View of Government, University, and Industry Partnerships*, This paper was submitted by Jere Glover, Chief Counsel of the Office of Advocacy, at the Senate Committee on Small Business Roundtable Discussion on the SBIR program on 8/4/1999.

<sup>5</sup> [http://cordis.europa.eu/fp7/home\\_en.html](http://cordis.europa.eu/fp7/home_en.html)

<sup>6</sup> *A New View of Government, University, and Industry Partnerships*, op. cit.

<sup>7</sup> *Government-Industry Partnerships for the Development of New Technologies*, National Research Council, National Academies Press; Charles W. Wessner, Editor; 2002, page 23; <http://www.nap.edu/catalog/10584.html>



# ***SAVE SBIR***

## **Amend HR 1425 to fix the harmful sections that would radically alter the SBIR Program**

The Small Business Innovation Research program is one of the most successful and effective innovation programs in the Federal government. It has been praised as “sound in theory and effective in practice” by the National Research Council, and has helped small businesses produce groundbreaking new technological innovations. Thousands of companies have used the SBIR program to get off the ground, including major international corporations like Qualcomm and Symantec, and the SBIR has also served as the inspiration for similar government programs in dozens of foreign countries such as the United Kingdom, India, and Japan.

Earlier this year, the Senate worked with the stakeholders involved in the program to produce an SBIR reauthorization bill (S. 493) that would strengthen the program while maintaining and preserving what has been successful about it. That bill has earned praise and endorsement from the small business community, including the Small Business Technology Council. However, the current SBIR reauthorization bill proposed by the House (HR 1425), would undo a lot of what has made the SBIR so successful, and introduce changes that could radically alter the character of this incredibly successful program. As small businesses that has benefitted from the SBIR program, we ask you to support S. 493, and ask the House Small Business Committee to amend the sections of HR 1425 that would radically change the SBIR program.

The following are the sections of the House SBIR Reauthorization Bill (HR 1425) that we believe would damage the SBIR program:

- **SEC. 101 Extension of Termination Dates.** This section would extend the program only 3 years, to 2014. Three years is less than a single solicitation cycle, and would not give small businesses any assurance that this program will be around for the long term. We support the S. 493’s language extending the SBIR program for 8 years.
- **SEC. 105 Phase Flexibility.** This section would allow agencies to bypass the Phase I proof-of-concept phase and award large Phase II grants to companies. The larger entry awards could lead to very advanced technologies to use the SBIR program as a sort of commercialization assistance program, a role currently reserved for post-SBIR investments. The Phase I requirement was originally included in the SBIR program to ensure that the company could demonstrate its technology’s proof of concept in a competitive environment. This requirement also acts as a safeguard against fraud, waste, and abuse, because it prevents Agencies from wasting millions of dollars on unproven technologies. This is a radical change and eliminates safeguards the founders of the program put into the SBIR Program to prevent abuse and prevent non-scientific, non-merit based decisions.

- SEC. 106 Participation of VC Owned Firms. This section increases the percentage of VC owned firms allowed to participate in the program from 25% and 15% in the Senate bill to 45% and 35%. It also allows hedge funds and private equity firms to participate in the program. The 25% and 15% figures included in the Senate reauthorization bill were the result of months of negotiations by the major organizations representing the stakeholders involved in this program. Allowing as much as 45% of an Agency's SBIR program to be awarded to large VC firms would edge out far too many small businesses, potentially halving the number of independent small businesses taking part in the program. The affiliation provisions in the Senate bill were carefully drafted with SBA involvement to prevent unintended expansion of VC participation in the Program.
- SEC. 505 Ensuring Equity in SBIR and STTR awards to Individual Companies (the Velázquez Amendment). This proposed change would take the SBIR program away from being a science- and merit-based competitive program awarding small businesses with the best technology. This rule would punish the most successful small businesses, and would force Agencies to pick the 2nd or 3rd best technology in some cases simply because the best technology was developed by a company with too many awards. The companies with the largest number of SBIR awards that would be affected by this amendment are primarily DOD contractors because the DOD uses the SBIR program to successfully quickly transition advanced technologies to our fighting forces.
- No SBIR Allocation Increase. HR 1425 does not include the allocation increase that was included in the Senate reauthorization bill, S. 493. Without this increase in allocation to balance against the increase in award size limits and bypassing Phase I, the number of SBIR awards given out could plummet as the average award size rises. We support the language in S. 493 that would raise SBIR allocation by 1 percent over ten years.

We urge you to contact House Small Business Committee Chairman Sam Graves and Ranking Member Nydia Velazquez, and ask them to amend HR 1425 to fix the sections listed above, and include the Senate S. 493 language instead. The SBIR program is too successful and too important to American small businesses to change it this drastically. Show your support for small business by helping to preserve and strengthen the SBIR program.

**Small Business Technology Council  
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## APPENDIX B: DEAR COLLEAGUE AND HILL LETTERS

**Congress of the United States**  
**Washington, DC 20515**

September 9, 2011

The Honorable Sam Graves  
Chairman  
Committee on Small Business  
U.S. House of Representatives  
2361 Rayburn HOB

The Honorable Nydia Velázquez  
Ranking Member  
Committee on Small Business  
U.S. House of Representatives  
B343 Rayburn HOB

Dear Chairman Graves and Ranking Member Velázquez:

We appreciate your continued leadership in the effort to complete a long-term reauthorization of the Small Business Innovation Research (SBIR) program. As you negotiate with your Senate counterparts on final legislation, we wish to inform you of certain concerns we have relative to H.R. 1425.

Though we support your desire to ensure that SBIR survives and continues to create jobs, we are particularly concerned with Section 505 of H.R. 1425. This language, if adopted, would limit the number of SBIR awards that participants in the program can receive. We believe this language would undermine the merit-based principles that make the SBIR program so successful. Additionally, this provision could limit the federal government's ability to choose and cultivate the best ideas in the SBIR program, and force agency personnel to adopt less viable proposals when certain organizations reach their annual quotas.

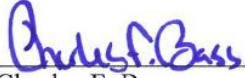
We are equally concerned with language of Section 105 of H.R. 1425 which would allow SBIR awardees to avoid Phase I of the award process and proceed directly into Phase II. Phase I represents a critical step in the development of SBIR concepts because that is the stage in which organizations prove feasibility. Curtailing or eliminating that element of the process could result in major investments in impractical technologies and could lead to fewer SBIR grants being awarded. The government's return on investment under SBIR comes from developing feasible concepts. Without the proving ground of Phase I, the program will likely produce less commercialized products and will risk wasting taxpayer money.


As you work to find a long-term solution for SBIR, we respectfully request that you strike Sections 105 and 505 from any final, compromise legislation. We do not believe these provisions will improve the SBIR program, but we do believe they will result in negative, unintended consequences.

As Representatives of Congressional Districts where SBIR creates jobs and drives innovation, we know how well the program works. We cannot risk letting SBIR lapse. Beyond that, Congress should not fundamentally alter a system that produces real, tangible results for American taxpayers.

Please do not hesitate to contact us to discuss this matter in greater detail. Thank you again for your leadership in working to continue and strengthen the SBIR program.

Sincerely,

  
Charles F. Bass  
Member of Congress

  
Frank Guinta  
Member of Congress

  
Niki Tsongas  
Member of Congress

  
Peter Welch  
Member of Congress

**Congress of the United States**  
**Washington, DC 20515**

October 11, 2011

The Honorable Sam Graves  
Chairman  
Committee on Small Business  
U.S. House of Representatives  
2361 Rayburn House Office Building

The Honorable Nydia Velázquez  
Ranking Member  
Committee on Small Business  
U.S. House of Representatives  
B343 Rayburn House Office Building

Dear Chairman Graves and Ranking Member Velázquez:

As you continue your work on a long-term reauthorization of the Small Business Innovation Research (SBIR) program, we urge you to ensure that any legislation brought to the House floor continues to reflect the program's true intent: fostering innovative and cutting-edge research at small businesses. During your ongoing negotiations with the Senate, we hope you will consider modifying certain provisions within the current House bill, H.R. 1425, which we believe could endanger the future success of the SBIR program.

First, we ask that you modify current language in H.R. 1425 that allows firms majority-owned by multiple venture capital (VC) companies to gain greatly expanded and unprecedented access to the program. While we are open to expanding the role of VC participation beyond current law, we believe that allowing VC majority-owned firms to qualify for SBIR funding without proper safeguards will crowd out true innovative small businesses while at the same time wastefully subsidizing private investment from large VC firms. Historically, the SBIR program has been instrumental in funding innovative "infant" industry research and development when obtaining private capital is not yet a viable option. This program should continue to effectively target scarce federal resources to technology development where private investment is insufficient. We therefore urge you to include language on VC participation similar to that of S. 493, which is supported by both the small business and venture capital communities. Also, integral to a limited increase in VC access is an increase in the total allocation for the SBIR program from its current 2.5 percent level to 3.5 percent, which also has support from a broad coalition of business groups, including the Small Business Technology Council, the U.S. Chamber, and National Federation of Independent Businesses.

Second, we are concerned about section 505 of H.R. 1425, which would limit the number of SBIR awards and dollars individual companies can receive, and in doing so would seriously undermine the merit-based principles that make the SBIR program so successful. We believe this provision will result in the federal government adopting "second best" technology because of arbitrary quotas. For example, if the Department of Defense determines that a specific SBIR proposal is most likely to provide the military with the quality technology necessary for protecting our troops, the Department should be free to invest in that technology regardless of how many SBIR awards the developer has previously won. It should not be forced to adopt



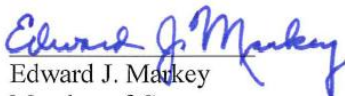
lower quality proposals. For missions related to our national defense, energy security, health, and economic well-being, success should not be a handicap.

Third, we are concerned that language of Section 105 of H.R. 1425, allowing SBIR participants to bypass Phase I of the award process and proceed directly to Phase II, undermines current best practices by eliminating the stage in which concepts prove feasibility. Instead of saving money and speeding commercialization, the elimination or curtailment of Phase I will yield major investments in impractical technologies, wasted taxpayer money, slower commercialization, and fewer SBIR grants being awarded. Instead of spending \$150,000 and waiting six months for a feasibility assessment under the timeline of a Phase I award, the federal government would spend \$1 million to leap directly into Phase II and wait up to two years to find out whether a technology was promising. If Congress undermines the proving ground of Phase I, it will be eliminating one of the critical tenets of the private-sector that was incorporated into the SBIR program: small awards, more awards, and short-time frames. This concept is proven. It avoids wasting money and time on ideas that do not and will not meet the needs of the government or the broader market.


Finally, we continue to encourage a long-term reauthorization to provide certainty to both federal agencies and our nation's small businesses. We believe that the SBIR program reauthorization should extend for long enough to permit agencies to manage this program as they have been successfully managing it for almost 28 years. We remain very concerned about the prospect of another short-term solution to extending this successful program. As representatives of Congressional districts where SBIR spurs innovation, creates jobs and exemplifies the successful possibilities of targeted government investment, we cannot risk letting this crucial program lapse.

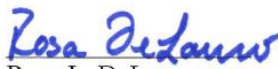
We appreciate your commitment to the continuation and strengthening of the SBIR program and look forward to working with you. Please do not hesitate to contact us to discuss this matter in greater detail. Thank you again for your attention to our concerns.

Sincerely,

  
Edward J. Markey  
Member of Congress

  
Niki Tsongas  
Member of Congress

  
Peter Welch  
Member of Congress


  
Rosa L. DeLauro  
Member of Congress

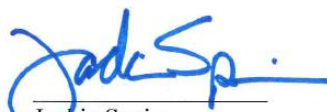
  
David McKinley  
Member of Congress

  
Donald Manzullo  
Member of Congress

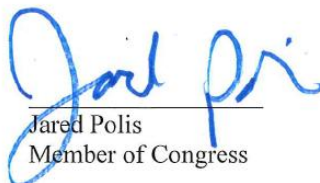
  
Lois Capps  
Member of Congress

  
Laura Richardson  
Member of Congress

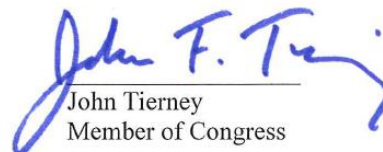
  
Joe Courtney  
Member of Congress



Jackie Speier  
Member of Congress



Jared Polis  
Member of Congress



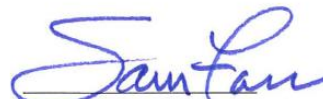
John Tierney  
Member of Congress



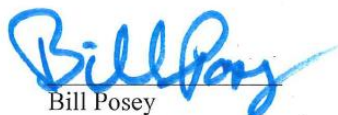
William Keating  
Member of Congress



Paul Tonko  
Member of Congress



Sam Farr  
Member of Congress



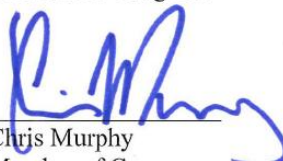
Bill Posey  
Member of Congress



Jim Langevin  
Member of Congress



Maxine Waters  
Member of Congress



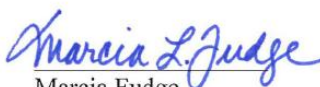
Chris Murphy  
Member of Congress



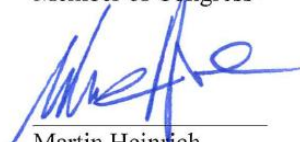
David Cicilline  
Member of Congress



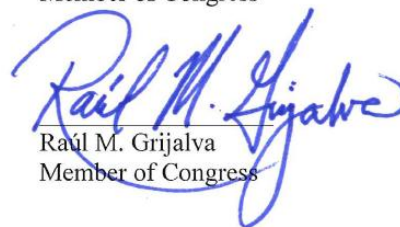
Pete Stark  
Member of Congress



Marcia Fudge  
Member of Congress



Martin Heinrich  
Member of Congress



Raul M. Grijalva  
Member of Congress



Rubén Hinojosa  
Member of Congress

**United States Senate**  
WASHINGTON, DC 20510

October 20, 2011

The Honorable Mary Landrieu  
Chair  
Committee on Small Business and  
Entrepreneurship.  
United States Senate  
428A Russell Senate Building

The Honorable Olympia Snowe  
Ranking Member  
Committee on Small Business and  
Entrepreneurship  
United States Senate  
442 Russell Senate Building

The Honorable Sam Graves  
Chair  
Committee on Small Business  
Rayburn Office Building, 2361  
House of Representatives

The Honorable Nydia Velazquez  
Ranking Member  
Committee on Small Business  
Rayburn Office Building, 2302  
House of Representatives

Dear Chair Landrieu, Chair Graves, Ranking Member Snowe, and Ranking Member Velazquez:

We write to express our strong support for passage of a long-term reauthorization of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer programs in this work period. We would also like to call your attention to four provisions in the House legislation, H.R. 1425, with which we have deep concerns. As you negotiate the final legislation, we respectfully urge you to omit sections 105, 106, 505, and 101 of H.R. 1425 from any compromise.

SBIR has been recognized as a highly effective program that encourages entrepreneurs to develop high-tech products that will keep our economy innovative and be competitive in the twenty-first century. We are deeply concerned that section 505 of H.R. 1425, which would limit the number of SBIR awards and award dollars that participants in the program can competitively win, will have an adverse impact on technology research needed by the agencies and small business commercialization. SBIR works because it is a merit-based program – it allows our federal agencies to select the best entity to respond to agencies' research and development (R&D) needs. However, the effect of section 505 would be to handcuff our federal agencies into meeting quotas based on a median state average for the nation, not to mention directly contradict section 502 in H.R. 1425 that requires all funds awarded to use "competitive selection and merit-based procedures." Section 505 will not cause states which have little to no SBIR awards to suddenly win more. It will redistribute SBIR funds to firms that scored lower on the scientific merits of their proposals. The greatest strength of the SBIR program is that it is merit-based, not quota-driven, ensuring that the taxpayers' dollars are invested wisely and that small



businesses with the greatest potential to grow are given that chance. As such, we would have strong reservations about supporting a bill that included this language.

We are also concerned about the proposal to allow SBIR awardees to avoid Phase I and move directly to Phase II grants. Phase I is an important protection for taxpayer dollars because it requires that entities prove the feasibility of a solution before a larger federal investment is made. Any provision to eliminate or scale back Phase I would hurt the program's effectiveness. Contrary to arguments that skipping Phase I would save money and speed commercialization, skipping Phase I means that the government would be spending \$1 million of taxpayer dollars and a wait time of up to two years to find out whether a technology was promising, instead of \$150,000 and six months. The SBIR program purposely contains several tiers of federal investment to guarantee that, as in the private sector, the government is making an investment that has been proven to be a risk worth taking.

We are also concerned with H.R. 1425's expansion of the Senate-House compromise language that would have changed the definition of a small business in order to allow the participation of firms majority owned by multiple venture capital firms. S. 493 was a compromise that struck a balance that enabled firms that are venture capital majority owned to participate in the SBIR program, while also protecting the majority of the research projects for the competition of small businesses that are still owned and controlled by individuals that need seed capital to explore innovative ideas. The Senate-House compromise also balanced the venture capital change by increasing the allocation percent. We also oppose the House's further opening of SBIR to organizations backed by private equity and hedge funds. The language in S. 493 is the only version that is supported by all major small business advocacy organizations, as well as BIO and the National Venture Capital Association. Section 106 would upset the Senate-House balance achieved in S. 493, and we oppose its inclusion.

Finally, we fully support an eight-year authorization for SBIR and do not support Section 101 in H.R. 1425. Our small innovators and federal agencies need the certainty that is associated with a long-term extension. Avoiding short-term fixes ensures that the program remains a successful, highly effective program that encourages small entrepreneurs to develop the products that will keep America competitive.

We look forward to working with you to ensure that any compromise legislation will be able to pass the House and Senate.

Sincerely,

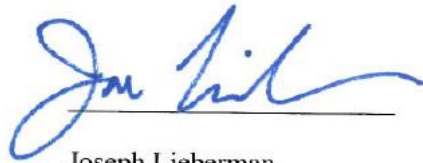
The image shows two handwritten signatures in blue ink. On the left is the signature of Jeanne Shaheen, and on the right is the signature of Scott P. Brown. Both signatures are fluid and cursive.

Jeanne Shaheen

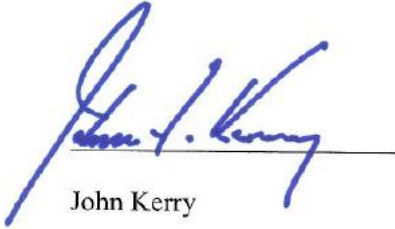
Scott P. Brown



Ben Cardin



Joseph Lieberman



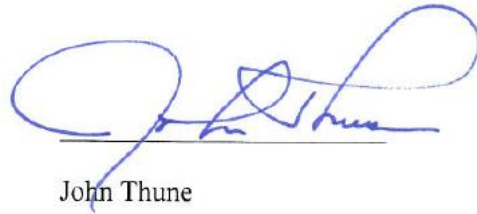
John Kerry



Kelly Ayotte



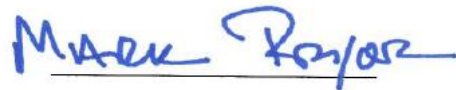
Michael Enzi



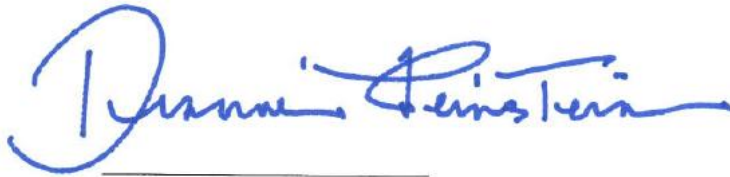
John Thune



Richard Blumenthal



Mark Pryor



Dianne Feinstein



## **APPENDIX C: PRESS RELEASES AND PRESS CLIPS**

**FOR IMMEDIATE RELEASE:**  
November 30, 2011

**CONTACT:** Nancy J. Sterling, APR  
ML Strategies, LLC  
617-348-1811  
[nsterling@mlstrategies.com](mailto:nsterling@mlstrategies.com)

### **SAVE SBIR COALITION PRAISES SENATE ACTION ON SBIR REAUTHORIZATION**

#### ***PROGRAM HAS CREATED 1.5 MILLION JOBS TO DATE—INCLUDED IN DEFENSE AUTHORIZATION BILL***

**Washington, DC** – The Save SBIR Coalition, a group of small business technology companies from across the nation, commends the Senate for taking a monumental step forward on the path to a long-term reauthorization of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. Last night, the full Senate approved by voice vote a bipartisan floor amendment (S. Amdt. 1115) to the National Defense Authorization Act for Fiscal Year 2012 (S. 1867) that would reauthorize the SBIR/STTR programs for eight years.

The amendment was filed by Senators Mary Landrieu (D-LA) and Olympia Snowe (R-ME), the Chair and Ranking Member of the Committee on Small Business and Entrepreneurship. They were joined by Senators Jeanne Shaheen (D-NH), Scott Brown (R-MA), John Kerry (D-MA), Kelly Ayotte (R-NH), Christopher Coons (D-DE), Carl Levin (D-MI), Benjamin Cardin (D-MD) and Robert Casey (D-PA) as cosponsors. In their remarks on the floor, both Senator Snowe and Senator Landrieu lauded the SBIR program for its potential to drive job creation, innovation and economic growth in a time of economic uncertainty.

The Save SBIR Coalition applauds the Senate for passing this critical amendment and thanks Senators Landrieu and Snowe for their hard work on the issue. The amendment represents a positive development toward reaching a long-term reauthorization of this crucial, job creating program that is set to expire on **December 16.**

“We hope the strong bipartisan support that the SBIR program received will provide momentum for a final agreement with the House that tracks closely to the Senate amendment,” said Robert F. Weiss, Chairman of the Save SBIR Coalition. “Entrepreneurs across the nation appreciate the steadfast efforts and the unwavering support of the Senate to clear the path toward a workable reauthorization of the SBIR program. It is now time to get this reauthorization done.”

"I applaud the bipartisan members of the U.S. Senate who took a firm stand yesterday on behalf of small business," said Jere Glover, Executive Director of the Small Business Technology Council, the nation's largest association of small, technology-based companies in diverse fields. "We especially thank Senators Landrieu and Snowe for their work on this important legislation. The nation is recovering from the worst recession since the Great Depression and reauthorizing these programs will provide an important stimulus to jump start the commercialization of new products and technologies."

For more information, visit <http://www.facebook.com/saveSBIRcoalition>

**FOR IMMEDIATE RELEASE:**  
December 9, 2011

**CONTACT:** Nancy J. Sterling, APR  
ML Strategies, LLC  
617-348-1811  
[nsterling@mlstrategies.com](mailto:nsterling@mlstrategies.com)

**LAWMAKERS AND SMALL BUSINESSES CALL FOR PASSAGE OF SBIR  
REAUTHORIZATION**

***PROGRAM HAS CREATED 1.5 MILLION JOBS TO DATE—INCLUDED IN SENATE  
DEFENSE AUTHORIZATION BILL***

**Washington, DC** – The Save SBIR Coalition, comprised of small businesses from across the country, praised a bipartisan group of House Members for issuing a strong letter supporting the reauthorization of the Small Business Innovation Research (SBIR) program in the FY 2012 National Defense Authorization Act (NDAA).

Led by Representatives Niki Tsongas (D-MA), Edward Markey (D-MA), Peter Welch (D-VT) and Mazie Hirono (D-HI), twenty-seven Members of the House called on the leadership of the House and Senate Armed Services Committees to retain the Senate-passed provisions reauthorizing the SBIR program in the NDAA. The lawmakers said that the SBIR program “is often described as the most successful federal government R&D program” and that “given the importance of the SBIR program to our Armed Forces, enactment of the reauthorization in this year’s NDAA is appropriate.”

Earlier this week, close to one thousand small businesses from across the country sent a letter urging Congress to pass a long-term extension of the SBIR and Small Business Technology Transfer (STTR) programs before the end of the year.

The letter, which was addressed to Senate Majority Leader Harry Reid, House Speaker John Boehner, Senate Minority Leader Mitch McConnell and House Minority Leader Nancy Pelosi, requested that the Congressional leadership support the bipartisan amendment passed by Senators Mary Landrieu and Olympia Snowe to the National Defense Authorization Act for Fiscal Year 2012 (S. 1867) that would reauthorize the SBIR/STTR programs for eight years. The letter also stressed small businesses’ opposition to provisions of the House version of the SBIR Reauthorization (H.R. 1425) which would limit the number of SBIR awards small businesses may receive and eliminate Phase I of the SBIR program.

“The Save SBIR Coalition applauds these innovative small businesses for putting pressure on Congress to reauthorize this critical program before it is set to expire on December 16<sup>th</sup>, said Robert Weiss, Chairman of the Save SBIR Coalition. “We hope the strong support for the SBIR program from the nation’s innovative entrepreneurs will provide momentum for a final agreement and a long-term reauthorization.”

"I applaud all of the small businesses who took a firm stand on behalf of American innovation and economic growth," said Jere Glover, Executive Director of the Small Business Technology Council, the nation's largest association of small, technology-based companies in diverse fields.

“Reauthorizing these programs will provide an important stimulus to jump start the commercialization of new products and technologies.”

The Save SBIR Coalition is a group of small businesses dedicated to a workable, long-term reauthorization of the SBIR program. Since its inception, recipients of SBIR and STTR awards have provided small firms with \$28 billion, and these firms have produced more than 85,000 patents, producing 25 percent of America’s key innovations and generating millions of well-paying jobs across all 50 states.

The letter from small business can be found [here](#) and signatories [here](#).

The House letter to NDAA conferees can be found [here](#).

The Tsongas-Markey-Welch-Hirono letter was signed by the following Member of the House of Representatives:

Niki Tsongas (D-MA), Edward Markey (D-MA), Peter Welch (D-VT), Mazie Hirono (D-HI), Maxine Waters (D-CA), David McKinley (R-WV), Donald Mazullo (R-IL), Joe Courtney (D-CT), William Keating (D-MA), Charlie Bass (R-NH), Lois Capps (D-CA), John Tierney (D-MA), Laura Richardson (D-CA), Barbara Lee (D-CA), Chris Murhpy (D-CT), James McGovern (D-MA), David Cicilline (D-RI), Jackie Speier (D-CA), Paul Tonko (D-NY), Russ Carnahan (D-MO), Jared Polis (D-CO), Chellie Pingree (D-ME), Michael Michaud (D-ME), Rosa DeLauro (D-CT), Martin Heinrich (D-NM), Bob Filner (D-CA) and Janice Hahn (D-CA).

For more information, visit <http://www.facebook.com/saveSBIRcoalition>



## Lawmakers reach deal to fund small-biz programs

By [Bernie Becker](#) - 12/12/11 10:05 PM ET

Lawmakers have hammered out a compromise that would extend a pair of federal small-business programs for six years — and end a string of piecemeal authorizations for the initiatives.

House and Senate negotiators have for months tried to bridge their differences over the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, which aim to help smaller companies take part in federal research.

With the two programs set to expire on Dec. 16, lawmakers said Monday that they had found enough common ground to give the programs much-needed stability.

“As our nation continues to recover economically, it is important for Congress to pass legislation like this that helps our nation’s most effective job creators and innovators — our small businesses,” Rep. Sam Graves (R-Mo.), the chairman of the House Small Business Committee, said in a statement. Lawmakers plan to attach the new plan for the programs to the defense authorization bill, which could make its way through Congress this week.

As it stands, 11 federal agencies participate in SBIR, setting aside 2.5 percent of their research and development spending for the small-business program. The five agencies in the STTR program allocate 0.3 percent of their external research budget for the initiative.

The two programs have been operating under short-term reauthorizations for several years, since their last long-term deals ran their course.

Since then, lawmakers have argued over a host of issues dealing with the programs, including how long a reauthorization should be and how venture capital-backed firms should be allowed to participate.

The divisions over the programs were more between the chambers than between the parties.

In general, senators have called for a reauthorization that tracked more closely to past agreements, while House negotiators have proposed broader changes. Many small-business groups have sided with the Senate in the dispute, with more than 900 companies and advocates pushing for that chamber's proposal in a letter last week.

But in the end, lawmakers in the two chambers compromised on a host of issues to get a longer-term pact.

The six-year reauthorization of the two programs, for instance, almost splits the difference between the three years proposed by the House and the eight years preferred by the Senate.

Sen. Mary Landrieu (D-La.) the chairwoman of Senate Small Business, said in a statement that the new deal would “ensure that small businesses across America continue to help the federal government keep our nation on the forefront of cutting-edge technologies in fields such as national security, health, and energy.”

The agreement also allows venture capital-backed firms to receive up to 25 percent of SBIR funds from the National Institutes of Health and the Energy Department and up to 15 percent from other agencies, figures sought by the Senate.

House negotiators, meanwhile, had sought to basically end the first phase of the SBIR program, which senators had said would make it more difficult to test the viability of a project.

Under a pilot program included in the compromise reauthorization, companies could skip the initial phase if certain agencies decided their research was far enough along.

Agencies would also have to put aside more of their research budgets for the programs in the new long-term reauthorization, with the SBIR allocation rising to 3.2 percent and STTR to 0.45 percent.

House negotiators had proposed no change on that front, while the Senate wanted more robust increases.

As word of the deal rolled out on Monday, small business advocates praised the deal. Robert Weiss of the Save SBIR Coalition, a group that had been skeptical of the House proposals for the program, praised negotiators in both chambers for hashing out a deal.

“Without the tireless work of these lawmakers, there would be no agreement today,” Weiss said in a statement.

## On Small Business

Entrepreneurship and the people, policies and businesses that make it go.  
By John Harrison and Olga Khazan

Posted at 04:35 PM ET, 12/07/2011

# House and Senate spar over small business R&D programs

By [J.D. Harrison](#)

As House and Senate lawmakers meet this week to iron out the differences between competing versions of the annual defense bill, small business committees in both chambers are racing to negotiate the terms of an amendment to spur small business research and innovation.

On one side of the Hill, [the Senate version](#) of the National Defense Authorization Act includes an amendment reauthorizing the [Small Business Innovation Research](#) program and the [Small Business Technology Transfer](#) programs, which require government agencies to set aside a portion of their annual research budgets for contracts and grants to small businesses. No such amendment was included by [the House](#), where lawmakers have in the past been hesitant to attach such measures to defense authorization legislation. Both programs are currently running on a temporary resolution that expires next Friday.

“Small business is the primary source of innovation and new technology development, and that’s been the truth for a long time,” said Jere Glover, executive director of the Small Business Technology Council and President Clinton’s former small business advocate. “But these programs are really the only ones designed to make sure small business at least gets some part of the innovation budget.”

Last year, the SBIR program alone distributed approximately \$2.5 billion in funding to small businesses, according to [government data](#), compared to only \$1.7 billion in early-stage investments made by the entire venture capital industry. The program is designed to fund research projects that private sector investors deem too early or too risky.

University of California at Davis researchers also found that SBIR-nurtured firms consistently account for a quarter of all United States R&D 100 Awards, which are handed out each year by R&D Magazine recognizing the most significant research and development advances across multiple disciplines. [The report](#) touted the pattern as “a powerful indication that the SBIR program has become a key force in the innovation economy of the United States.”

Despite their success, SBIR and SBTT (both established in 1982) have survived only through [temporary extensions](#) for the last three years. The Senate amendment, which passed unanimously, would not only reauthorize the programs through 2019, but also slightly increase the SBIR allocation from 2.5 to 3.5 percent.

Supporters of the amendment argue that long-term reauthorization is imperative in order to stabilize the programs, encourage investors to back science and technology pioneers, and promote innovation on the part of small businesses.

“This amendment not only keeps these programs alive, it also gives them stability,” Sen. Mary Landrieu (D-LA), chair of the Senate Committee on Small Business and Entrepreneurship, [said in a statement](#) on Friday. “I am hopeful our counterparts in the House will work with us to bring this to the President’s desk immediately.”

However, House lawmakers have their own stance on the continuation of the programs, the details of which they put forth earlier this year in a separate reauthorization bill, [HR 1425](#). The House Small Business Committee (in which the bill remains pending) and House Science Committee will meet with the Senate Small Business and Entrepreneurship Committee in the coming days, both sides hoping to compromise on an amendment that can be pegged to the final defense bill. However, the committees are running short on time and several points of contention threaten the survival of the amendment and, by extension, the survival of the programs.

Among the most divisive negotiating points between the two sides are proposed changes to the funding process, per-firm funding limits, and length of reauthorization, according to a Senate staffer familiar with the negotiations. The House committee favors reauthorizing the program for the next three years in order to give Congress increased oversight and the ability to make any necessary changes more easily in the years ahead, according to House Small Business Committee spokesman DJ Jordan.

House lawmakers also want to cap the amount of funding that can go to a single firm each year and allow companies with advanced research to bypass the first small round of funding mandated by the [current SBIR guidelines](#). Both changes were proposed in HR 1425 but later left out of the amendment to the Senate NDAA.

“There are companies that have proven their products are solid and they have been working on them with their own funds for years,” Jordan said. “We want to move them on to increased phase II funding right away and reserve phase I funding for more elementary-stage companies.”

The two chambers also have slightly different views on raising the SBIR allocation percentage as well as the eligibility of businesses majority-owned by venture capital firms and hedge funds, but those appear to be gaps more easily bridged. The same cannot be said for the structural funding changes and award limits proposed by the House, which Glover says represent the “most radical changes” ever to SBIR and pose serious challenges for everyone at the negotiating table.

“This is not tuning or tweaking or making the program better,” said Glover, who has played a role in the programs’ reauthorization each time over the past 30 years and [testified on the matter](#) before the Senate this spring. “They want to radically modify the most successful innovation program in the United States. Now, will the changes make the programs better? I certainly don’t think so, I think they’ll be a disaster. But either way, with the success and popularity of the program, why would you even propose such radical changes?”

Meanwhile, both sides are holding out hope that they can strike a reauthorization deal as part of the defense bill, and Jordan said the Senate committee is willing to “negotiate and bend” on several measures, including the number of years of reauthorization. House Small Business Committee Chairman Sam Graves (R-MO) added that he remains “optimistic that all sides can come together in good faith to negotiate a plan that not only reauthorizes, but improves the program.”

Senator Landrieu echoed Graves’ optimism but declined to comment further on which points her committee is willing to be flexible. “We’re not going to be negotiating this in the press,” she said. “These negotiations are going on and both sides are working in good faith. I believe we can get a deal by Friday.”

Glover, on the other hand, sounded far less confident than the two lawmakers.

“My fear is that we have personalities and ‘my way or the highway’ attitudes that may slip into these discussions, and that if people can’t get exactly what they want, the programs could be in danger,” Glover said. “I’ll be horribly disappointed but certainly not shocked if this doesn’t get resolved. Not shocked at all.”