

Improving Government Vendor Diversity

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I. Introduction

Many cities and states seek to contract with local Minority- and Women-owned Business Enterprises (MWBEs) both to spur economic development and improve racial and gender equity. Across the U.S., people of color constitute a small but growing share of business owners.¹ A challenge for them is that their families typically have only a fraction of the net worth of white families, and businesses often depend on family and friends for start-up and growth capital.² They can also suffer discrimination in the private marketplace.³ And while more American women have owned businesses in recent years, these businesses still comprise a disproportionately small share of the country's total revenues and jobs.⁴ For example, according to the City of Boston's 2016 Economic and Equity Agenda,⁵ 74 percent of privately-owned businesses in the City with paid employees are owned by men and 80 percent are owned by non-Hispanic whites.

As part of Bloomberg Philanthropies' What Works Cities (WWC) initiative, the Harvard Kennedy School Government Performance Lab (GPL) helped Boston's Office of Small Business Development, Department of Neighborhood Development, and Department of Innovation and Technology improve vendor diversity.⁶ In particular, the GPL supported the City's ongoing efforts to streamline procurement processes, expand technical assistance provided to diverse vendors, and monitor progress on vendor diversity goals. Initial signs suggest that these strategies have been effective. For example, Department of Neighborhood Development estimates that 70 percent of its maintenance expenditures on City-owned vacant plots in the first half of 2015 were spent on contracts with MWBEs.⁷

Drawing from our experience with Boston and other WWC engagements, this brief describes three strategies for improving government vendor diversity: (1) publicly establish concrete goals, and

hold departments accountable for meeting them by tracking their performance; (2) dedicate staff resources for outreach and technical assistance to small businesses; and (3) streamline procurement processes for all businesses, as complexity may prevent the smallest vendors, which are disproportionately MWBEs,⁸ from winning government work opportunities. This brief concludes by summarizing lessons that can be drawn for other cities from Boston's progress on vendor diversity.⁹

II. Publicly committing to goals and setting up a system to track progress are critical steps toward improving vendor diversity

Establishing concrete, public goals can be a crucial first step to increasing the number of MWBEs with which governments contract. First, the Mayor's commitment signals to city staff that they need to prioritize vendor diversity throughout the procurement process. Second, specifying goals enables the Mayor to hold departments accountable for demonstrating progress. Third, publicly stated goals send a powerful signal to the MWBE community that vendor diversity is a priority, which can encourage them to participate in government procurements. In Boston, Mayor Marty Walsh signed an [Executive Order](#) in February 2016 that set targets for utilization of MWBE vendors for construction, architecture, engineering, and professional services contracts as part of the City's broader Economic Inclusion and Equity Agenda to address racial and economic disparities.¹⁰

Once performance targets are established, the City should set up a robust system for measuring success to evaluate whether engagement strategies are working. A key challenge to tracking vendor diversity is accurately identifying MWBEs.¹¹ Many governments rely on self-reporting when vendors register to apply for work opportunities. This can lead

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to misclassification,¹² duplicative accounting,¹³ and incomplete information as many vendors fail to respond to an MWBE-identifying question. In some cities, staff informally track diverse vendors with whom they conduct business. In fact, the estimate of Department of Neighborhood Development maintenance expenditures spent on diverse vendors noted in Section I was produced manually based on staffs' knowledge of which firms are run by people of color and women.

The alternative to self-reporting and informal tracking of vendor diversity is to use a certification system, which allows MWBEs to document their diverse vendor status. The federal government, all states,¹⁴ many cities, and some nongovernmental organizations¹⁵ offer MWBE certifications. However, certification is often laborious for vendors and government staff. Vendors must submit extensive documentation with uncertain immediate benefits. For example, Boston requires balance sheets, income statements, lease agreements for space and equipment, cancelled checks written for business purposes, principals' resumes, documentation of initial investment, and documentation of ethnicity for MWBE certification. Moreover, for local governments, the staff time spent reviewing applications can be burdensome. These procedures can seem particularly unnecessary to all parties when would-be contractors are obviously women or people of color, but must still jump through the hoops of certification.

Nonetheless, certification systems offer governments the most reliable option for accurately and comprehensively tracking vendor diversity. One way to promote certification and thus improve vendor diversity data is for cities to recognize other governments' or organizations' MWBE certifications. This can prevent MWBEs from having to undergo multiple certification processes and can encourage them to obtain widely recognized certifications. Moving in this direction, Boston is working with the Commonwealth of Massachusetts to make their respective certification applications nearly identical. Forms and documentation requirements are now similar enough that applying for MWBE status with both jurisdictions is only slightly more difficult for vendors than applying with just one of them. Boston and Massachusetts staff also promote each other's certifications to businesses going through one jurisdiction's process. Boston and Massachusetts could increase the potential rewards of certification

Evaluating (and Supplementing) Diverse Vendor Certification Data

Governments that want to assess the accuracy of their vendor certification data have a few options. City staff can randomly sample a subset of businesses, manually determine whether they qualify for MWBE status, and compare them to MWBE certification records to reveal inconsistencies. Matching vendors' residential information to zip codes or census tracts can establish whether a government is spreading contracting dollars to business owners living across a wide range of neighborhoods; the percentage of vendors living in areas that are predominantly nonwhite can serve as a rough proxy for racial or ethnic diversity. Regardless of the sampling methodology used, governments should evaluate whether over- or undercounting is systematic so as to prevent misinterpreting trends in contracting data.

In addition to assessing the certification system, these methods can potentially provide new information about a jurisdiction's diverse vendor landscape. For example, a city that does not have many certified vendors may still have strong vendor diversity if the city is contracting with MWBEs that are not certifying.

As governments invest in improving their tracking of vendors' MWBE statuses, it may *appear* that they have increased their diversity numbers. But these apparent positive trends could be due to improved data collection rather than actual progress in making it easier for smaller, disproportionately disadvantaged businesses to win work opportunities.

further by recognizing each other's certifications as valid.

Accurate and comprehensive tracking of individual MWBEs lays the groundwork for measuring a government's progress on diversifying its vendors. The next step is to design a set of metrics that capture key aspects of vendor diversity. Understanding vendor diversity performance is not as simple as reviewing the percentage of total spending going to certified MWBEs. Tracking complementary metrics can paint a more complete picture of challenges and successes. For example, to pinpoint which departments outperform others, leaders should track performance city-wide as well as for individual departments. Metrics should also break down contracting with each MWBE subcategory (women-owned businesses, minority-owned businesses,

minority women-owned businesses, etc.) to capture whether some groups win more bids than others. Finally, to pinpoint where MWBEs are not receiving opportunities, governments can track the number of MWBEs that make it to each stage of the procurement process, including receiving notifications about upcoming procurements, attending procurement information sessions, submitting bids for procurements, and winning contracts.

To address these complexities, Boston is setting up an internal visual dashboard to monitor vendor diversity outcomes for the City as a whole and for individual departments. Some of the metrics used are outlined in the following table:

| Metric | Purpose |
|--|---|
| Percentage and absolute dollar amount of City spending from vendors in each MWBE category, e.g. women-owned businesses and minority-owned businesses | Provides general information about vendor diversity performance within the City |
| Percentage and absolute number of City contracts with MWBEs | Highlights if an absolute or percentage spend target was met by giving a few large contracts to MWBEs |
| Percentage and absolute number of businesses in each MWBE category contracting with the City | Highlights if an absolute or percentage spend target was met by giving many small contracts to a few MWBEs |
| Number of diverse businesses that win City contracts for the first time | Sheds light on whether the City was effective in conducting outreach and building the capacity of smaller MWBEs |

III. Dedicated staff that uses data to target outreach and technical assistance is key for meeting MWBE goals

Achieving ambitious vendor diversity goals requires staff resources. For example, Boston has invested in Department of Neighborhood Development and Office of Small Business Development staffers – who are skilled in project management and business development, and have roots in the communities they serve – to build strong relationships with MWBE vendors and support them in participating in the City’s business opportunities. Throughout the procurement process, these employees provide a wide range of intensive outreach and technical assistance to small businesses, which are disproportionately MWBEs, including:

- providing one-on-one support and guidance to vendors on the City’s requirements for business registration, certification, bidding, contracting, and payment processes;
- conducting workshops on business development in predominantly low-income or minority neighborhoods¹⁶;
- partnering with nongovernmental organizations to increase access to capital and pro bono legal services for smaller vendors;
- attending community group meetings, including those affiliated with churches and trade organizations; and
- cold-calling publicly listed businesses to inform them of new bidding opportunities.

To guide their outreach, city staff need an accurate, comprehensive list of local MWBEs, as described in Section II. Unfortunately, the smallest vendors that most need government technical assistance and business opportunities are often the least likely to have the administrative capacity to certify. They thus tend to be absent from city outreach lists and may not learn about technical assistance and capacity building opportunities, or upcoming procurements for which they may qualify.

More broadly, MWBE data, including the goods or services vendors offer and the extent to which businesses historically apply for and win government contracts, can help government staff fine-tune their vendor diversity strategies. For example, a small city may not have any MWBE web designers with the capacity to respond to a complicated bid. In this scenario, investing in advertising upcoming procurements to diverse vendors is unlikely to boost the number of web design contracts awarded to MWBEs. Instead, city staff should provide capacity building services – such as trainings on responding to RFPs or managing financing and credit – to help web design firms get ready for future government contracts.

IV. Streamlining procurement processes and strategically structuring contracts facilitates government contracting for all businesses – including MWBEs

Despite good intentions, governments’ attempts at increasing vendor diversity often result in new regulatory or administrative burdens that can make it *more* difficult for small businesses to apply for and win bids. For example, the U.S. Department of

Transportation requires that applicants for Disadvantaged Business Enterprise status provide substantial documentation of their personal net worth to ensure that they are economically disadvantaged in addition to being a member of an ethnic minority group or having another social disadvantage.¹⁷ By contrast, Boston's Department of Innovation and Technology and other departments have streamlined procurement processes and focused on strategically structuring contracts to make contracting with the City more accessible and transparent. Process and systems improvements have included:

- improving timeliness of payment to vendors;
- encouraging departments to eliminate or lessen deposit or bonding requirements when possible;
- clarifying language on the City's contractor registration website and creating a single landing page¹⁸ for all organizations interested in working with the City;
- minimizing paperwork requirements, including allowing for documentation to be submitted electronically wherever possible;
- breaking up large contracts into multiple opportunities to increase accessibility for small businesses;
- facilitating partnerships between new and established firms, including by sharing contact information between businesses that attend City-led information sessions about procurements;
- sharing RFI responses to publicize which vendors are potentially interested in a procurement, both to facilitate the formation of joint ventures between firms and to provide a window into how competitors view the opportunity; and
- providing feedback to contractors who did not win a bid on how to strengthen future applications.

Improvements to the procurement process that benefit MWBEs can lower barriers to entry for all businesses. These efforts can reduce administrative expenses for vendors that already have government contracts, and less complexity can attract new vendors that do not usually seek government contracts, such as tech startups. An expanded pool of bidders can lead to greater competition for government procurements, more innovative proposals from vendors, and lower costs and better outcomes for taxpayers.

V. Lessons from Boston on improving vendor diversity

Boston's efforts reveal that a three-pronged strategy for improving vendor diversity can have a significant impact. First, governments should make public commitments and track meaningful data on vendor diversity performance through a rigorous certification system and/or through informal tracking of whether contractors are MWBEs.

Second, governments should dedicate personnel to vendor outreach and technical assistance. These activities can build capacity of all small businesses, which are disproportionately MWBEs, and make them more likely to apply for and receive government contracts. City staff can use data to target these outreach efforts at a diverse group of vendors.

Third, governments should make it easier for all small businesses – both MWBEs and non-MWBEs – to work with them by streamlining procurement processes. Simplifying bureaucratic requirements and increasing transparency makes contracting with government more attractive to all vendors. By broadening the vendor pool, these reforms can boost competition and improve outcomes of government contracts.

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The Government Performance Lab at the Harvard Kennedy School conducts research on how governments can improve the results they achieve for their citizens. An important part of this research model involves providing pro bono technical assistance to state and local governments. Through this hands-on involvement, the Government Performance Lab gains insights into the barriers that governments face and the solutions that can overcome these barriers. For more information, please visit our website: www.govlab.hks.harvard.edu.

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¹ Lichtenstein, Jules. Issue Brief 2: "Demographic Characteristics of Business Owners." U.S. Small Business Administration Office of Advocacy, 16 Jan. 2014.

<https://www.sba.gov/sites/default/files/Issue%20Brief%202%20Business%20Owner%20Demographics.pdf>.

² Thompson, Jeffrey P. and Gustavo A. Suarez. Finance and Economics Discussion Series 2015-076: "Exploring the Racial Wealth Gap Using the Survey of Consumer Finances." Board of Governors of the Federal Reserve System, 22 Aug. 2015, Washington D.C. <http://dx.doi.org/10.17016/FEDS.2015.076>.

³ Fairlie, Robert W., and Alicia M. Robb. "Disparities in Capital Access between Minority and Non-minority-owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs." U.S. Department of Commerce, Minority Business Development Agency, Jan. 2010. <https://www.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>.
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⁴ "Women Business Owner Statistics." National Association of Women Business Owners.

<https://www.nawbo.org/resources/women-business-owner-statistics>.

⁵ City of Boston Economic Inclusion and Equity Agenda. February 2016.

<http://www.cityofboston.gov/pdfs/economicinclusionandequityagenda.pdf>.

⁶ The WWC initiative, which launched in April 2015, supports a hundred mid-sized American cities to enhance their use of data and evidence in order to improve services, inform local decision-making, and engage residents. As part of this initiative, the GPL is providing technical assistance to at least twenty cities that seek to adopt results-driven contracting strategies for their most important procurements and contracts. For more information about results-driven contracting, see our policy brief:

http://govlab.hks.harvard.edu/files/siblab/files/results-driven-contracting-an-overview_o.pdf.

⁷ To receive MBE or WBE status from governments, government departments, or organizations, a person of nonwhite ancestry or a woman must typically own at least 51% of the business and must control the management and daily operations of the business.

⁸ McManus, Michael. Issue Brief 12: "Minority Business Ownership: Data from the 2012 Survey of Business Owners." U.S. Small Business Administration Office of Advocacy, 14 Sep. 2016. <https://www.sba.gov/sites/default/files/advocacy/Minority-Owned-Businesses-in-the-US.pdf>.

⁹ A separate set of race- and gender-conscious strategies, such as requiring prime contractors to meet MWBE subcontracting goals, are sometimes used by cities. These practices generally require the city to establish a history of discrimination and continued inequality in contracting through a "disparity study." For an overview of these strategies, see the following paper: Lohrenz, Tim. "Contracting for Equity: Best Local Government Practices that Advance Racial Equity in Government Contracting and Procurement." Insight Center for Community Economic Development, 16 Dec. 2016.

http://haasinstitute.berkeley.edu/sites/default/files/gare-contract_for_equity_o.pdf.

¹⁰ "Mayor Walsh Signs Executive Order to Expand Opportunities for Women and Minority Owned Businesses." Mayor's Press Office, 24 Feb. 2016, Boston. <http://www.cityofboston.gov/news/Default.aspx?id=20529>.

¹¹ MWBEs are considered a subcategory of Disadvantaged Business Enterprises (DBEs), an umbrella term that typically includes Veteran-owned Business Enterprises and others. This brief refers to MWBEs and not DBEs because it primarily discusses Boston's vendor diversity efforts, which are focused on MWBEs. For purposes of tracking vendor diversity, it may be useful for cities to measure contracting with the broader category of DBEs.

¹² As described in footnote 7, the owner and the manager of a business must qualify to earn MWBE status. However, if certification can lead to perks for certified businesses, it could provide incentives for non-MWBEs or DBEs to either set up MWBE intermediaries through which they funnel business or to legally register using a figurehead who does not actually operate or own 51% of the business. Cases of certification fraud do happen. For example, in 2014, the U.S. Attorney for the Middle District of Pennsylvania successfully prosecuted the president of a construction company for fraudulently claiming DBE status while applying for and receiving construction contracts from the U.S. Department of Transportation. See the following link for more information: <https://www.fbi.gov/contact-us/field-offices/philadelphia/news/press-releases/former-president-and-owner-of-schuylkill-products-sentenced-in-largest-disadvantaged-business-enterprise-fraud-in-nations-history>.

¹³ Governments can overestimate spending on MWBEs if MWBE subcontractors report their revenue through separate channels from non-MWBE primes.

¹⁴ U.S. Small Business Administration. Office of Government Contracting and Business Development Resources.

https://www.sba.gov/offices/headquarters/ogc_and_bd/resources/14309.

¹⁵ Examples include the National Women Business Owners Corporation (<http://www.nwboc.org/apply.html>) and the National Minority Supplier Development Council (<http://www.nmsdc.org/mbes/mbe-certification/>).

¹⁶ In researching other jurisdictions' vendor diversity efforts, we found that New York City's Department of Small Business Services similarly offers intensive, nearly year-long capacity building courses and formalized mentoring programs for MWBE-certified firms. See the "Business Education" webpage on the NYC Business website. <https://www1.nyc.gov/nycbusiness/topicpage/support-for-businesses#topic10>.

¹⁷ Federal Transit Administration. Disadvantaged Business Enterprise (DBE) Frequently Asked Questions. 18 Mar. 2016. <https://www.transit.dot.gov/funding/procurement/third-party-procurement/disadvantaged-business-enterprise-dbe>.

¹⁸ City of Boston. Contracting with the City. <https://www.boston.gov/contracting-city>.

