



INSIGHT

CENTER FOR COMMUNITY
ECONOMIC DEVELOPMENT

The Impact of State Affirmative Procurement Policies on Minority- and Women- Owned Businesses in Five States

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“Best Practices, Imperfections, and Challenges in State Inclusive
Business Programs”

Part of an Inclusive Business Initiative

The Insight Center for Community Economic Development is a national research, consulting and legal organization dedicated to building economic health and opportunity in vulnerable communities.

We work in collaboration with foundations, nonprofits, educational institutions and businesses to develop, strengthen and promote programs and public policy that:

- Lead to good jobs—jobs that pay enough to support a family, offer benefits and the opportunity to advance
- Strengthen early care and education systems so that children can thrive and parents can work or go to school
- Enable people and communities to build financial and educational assets

The Insight Center was formerly known as the National Economic Development and Law Center.

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SUMMARY

This study analyses the impact of state affirmative procurement policies on the performance of minority- and women-owned businesses. By examining business outcomes in five states – California, Florida, Maryland, Oregon, and Washington – this study concludes that state procurement policies *do* have an impact on businesses owned by women and businesses owned by persons of color. This impact may extend beyond those firms that do business directly with states or local governments.

This study presents evidence that affirmative procurement policies, such as those in Maryland, do help minority business enterprises (MBEs) and women business enterprises (WBEs) to grow. Business growth is defined as the change in the number of employees over time. The benefit of these policies appears to be cumulative and long-lasting, as well-established MBEs and WBEs in Maryland are larger than similar businesses in other states. Affirmative procurement can begin to reduce the disparity in the availability and capacity of MBEs and WBEs, compared to white-, male-owned firms. Thus, affirmative procurement policies do serve a public good.

On the other hand, when affirmative procurement policies end or are interrupted, MBEs and WBEs do not grow as fast as similar businesses in other states. The slower business growth rates are not usually made up later, indicating the importance of the consistent presence of affirmative procurement programs.

The study also found that:

- MBEs and WBEs were less likely to experience business growth in the five years immediately after passage of Proposition 209 in California, than similar businesses in Maryland and Oregon; the two states in the study with no end or interruption in their affirmative procurement policies from 1996 to 2001.
- In addition to California, MBEs and WBEs in Washington, which ended affirmative procurement in 1998, and in Florida, which ended affirmative procurement in early 2000 and later in the same year reintroduced a voluntary program, were less likely to expand than similar businesses in Maryland and Oregon, from 1996 to 2001.
- During the same time period, there was no significant difference in the business growth rate of white-, male-owned businesses in any of the five states. This means that the difference among states in MBE and WBE business growth is not likely explained by macro economic factors in each state.
- Well-established MBEs and WBEs in Maryland – those at least 15 years old – were significantly larger in 2007 than similarly aged MBEs and WBEs in the other four states. Maryland is the one state among the five that has consistently maintained an affirmative procurement policy. This seems to indicate that the stunting of MBE and WBE business growth, caused by the end of affirmative action, is not later made up by the affected businesses.

INTRODUCTION

Do affirmative action policies in public procurement actually make a difference? A legal argument can be made that they are necessary in order to redress past and/or present discrimination and overcome disparities in the utilization of minority- and women-owned businesses (MBEs and WBEs) as suppliers, contractors, or sub-contractors to public agencies. But it has been more difficult to determine the extent to which affirmative procurement helps to overcome the disparity in the availability and market presence of MBEs and WBEs. This study attempts to determine that.

This research fits within the mission of the Insight Center for Community Economic Development, that is, to develop and promote innovative solutions that help people and communities become, and remain, economically secure. To do this, the Insight Center works in collaboration with community organizations, private foundations, corporations, government agencies, and others.

Inclusive Business Initiative

This research is part of an Inclusive Business Initiative of the Insight Center. This initiative seeks to promote policies and programs in the public, private, and nonprofit sectors that enhance minority and women business (MBE and WBE) development. Go to www.insightcced.org to participate in the Inclusive Business Initiative community. The Insight Center has identified two specific M/WBE research and action objectives:

- Using regional industry sector analysis and policy and program design, we link M/WBE development strategies to broader, regional economic development strategies, and
- Applying our policy and program analysis skills, we look at ways that the public, nonprofit, and private sectors can increase procurement from and provide capacity building to M/WBEs, such as through affirmative procurement initiatives.

This report is part of the Research Series “Best Practices, Imperfections, and Challenges in State Inclusive Business Programs.” It is the first of two research components to look at the trend and impact of affirmative procurement and targeted small business development services at the state-level. The first component provides a broad descriptive overview of the policies and programs in all 50 states related to M/WBE development. The details of this research will be presented in an online information center to be released in November 2007. The third research component examines the impact of the end of affirmative action in California and Washington on self-employment rates of women and persons of color. This initiative is funded by the Ford Foundation and will be followed by the creation of a peer learning network among states wishing to enhance their affirmative procurement and targeted small business development programs.

METHODOLOGY

This study employs an analysis of Dun & Bradstreet (D&B) firm-level data in order to examine business size and business growth rates by the gender- and racial-status of the business owner(s). D&B is one of the very few available business data services that tracks MBE and WBE status of firms. D&B data has been used in a number of disparity studies and found to be sufficiently accurate to be relevant in the legal and policy development arenas.

To create the sample of businesses we first eliminated all businesses in the real estate and insurance industries (SIC 64 and SIC 65), since the multitude of agents, considered self-employed businesses, would make up a significant portion of a random sample of small businesses. In addition, these industries generally do not do business with public agencies¹ and their performance is more reliant on the local real estate market than on public procurement policies.

Second, we decided to focus only on businesses with estimated annual sales of between \$50,000 and \$10,000,000. This keeps the focus on small- to mid-sized businesses which are likely the primary source of income for the business owner and which are more likely to have sufficient capacity to be ready and able to bid on and fulfill a contract with the public sector. The majority of the business entities in the U.S. have annual sales under \$50,000. However, we did not want the random sample to be filled with very small businesses which likely have limited capacity.

Selection of States

The states were selected by the following process:

1. California and Washington were selected because these were the two states with ballot initiatives in 1996 and 1998, respectively, which ended public affirmative action. In California the policy change was more dramatic: the state's race- and gender-conscious goals program was eliminated along with numerous local programs. Therefore, in order to ensure statistically robust results, the largest sample was selected from California. Washington's ballot initiative significantly decreased state procurement from MBEs and WBEs and eliminated a few local government affirmative procurement programs. In the last few years, Washington has aggressively pursued a voluntary supplier diversity program throughout state agencies.
2. Florida was selected due to the elimination of its race- and gender-conscious goals program in early 2000 by executive proclamation. Unlike California, however, local governments have been able to maintain their programs. Also unlike California, Florida quickly moved to initiate a voluntary, comprehensive

¹ According to the 2002 Economic Census Survey of Business Owners, 1.8% of businesses in the real estate sector and 2.3% of businesses in the finance and insurance sector had a significant state and local government customer base (at least 10% of their sales), compared to 5.3% of businesses overall.

supplier diversity program. Even so, the transition to the new program likely did have a negative impact on firms contracting with the state.

3. Oregon was selected as a comparison state due to its geographic proximity to California and Washington. It represents a state with a very limited affirmative procurement program (limited M/WBE vendor outreach) and with no significant policy changes between 1996 and 2007.
4. Maryland represents a comparison state with one of the strongest affirmative procurement policies of any state. In addition, its program has been in place consistently since the late 1970s and was enhanced several times between 1996 and 2007.

In addition to the 2007 data, we purchased the 2001 and 1996 data for the same sample of 2,720 firms – 1996 was chosen because it was the last full year before the implementation of Proposition 209 in California and 2001 was chosen as a half-way point and since it was a turning point in the economy in general. D&B was not able to create a sample of MBE and WBE firms with their historic data sets, which would have been preferred, in order to see how many firms went out of business after the passage of Proposition 209 and Initiative 200. Instead, the sample was created with current firms, without consideration of the first year of operations.

Some firms in the sample did not exist in 1996 or 2001; while there is not data on the number of employees for others. There is employee data for 748 firms in 1996 (28 percent of the sample) and for 1,517 firms in 2001 (56 percent of the sample). We used 'number of employees' as the primary business size variable. The more typical measure – annual sales and receipts – was not used since D&B often estimates annual sales based on the number of employees.

A decline in number of employees would be one possible measure of business performance. However, we looked at whether or not a firm had at least 33 percent growth in the number of employees from 1996 to 2001 or from 2001 to 2007. For example, a company growing from three to four employees would have a 33 percent growth rate. This was based on the premise that state and local government contracting is one of many market components of a healthy, growing firm, rather than the primary necessary factor that prevents a business from shrinking or failing. Hence, the use of significant (to-be-expected) business growth – a 33 percent increase in number of employees – as our primary business performance variable.

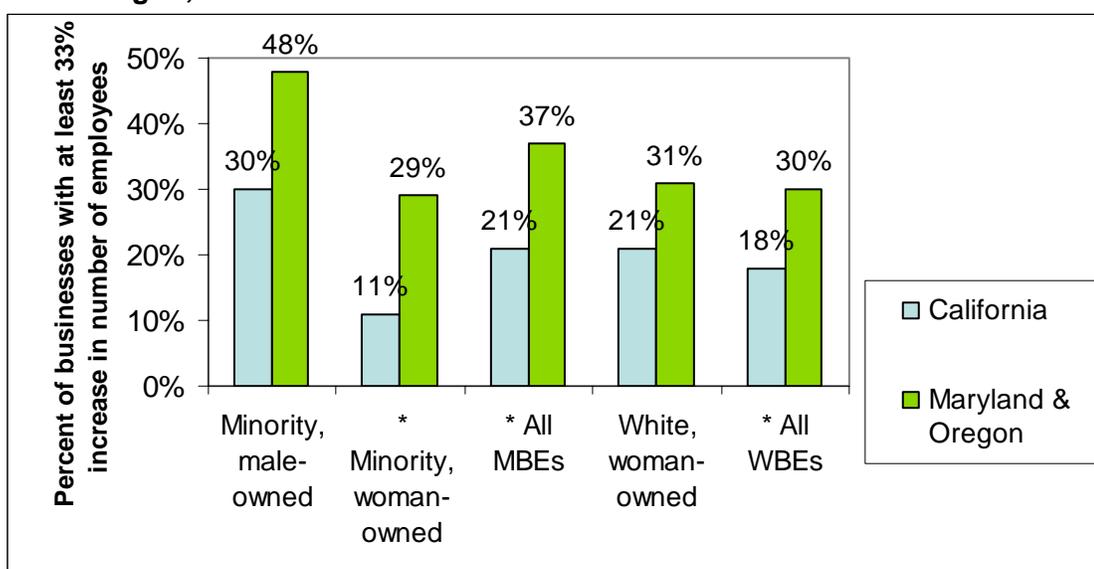
White-, male-owned businesses were used as a control group (See Figures 6 and 7 in the Appendix) to ensure consistent business growth rates in the five states. In fact, the business growth rate of the control group, white-, male-owned businesses, did not significantly vary in any of the five states for either of the time periods: 1996 to 2001 or 2001 to 2007. Thus, any differences in business growth rates among the sub-groups are not likely due to regional economic factors.

RESULTS

Impacts on Business Performance

The first part of the study examined business performance, measured by business growth rates, following the passage of California's Proposition 209 in November 1996. Maryland and Oregon were used as comparison states to California because they did not experience any major changes in inclusive business policies between 1996 and 2001. Maryland had some minor enhancements to its program, so it was considered a 'policy enhanced' state; Oregon was considered a 'policy-neutral' state.

Figure 1: Business Growth by MBE and WBE status, California vs. Maryland and Oregon, 1996 to 2001



* Significantly lower than Maryland and Oregon (combined) at the $p = 0.05$ level.

Note: White, male-owned businesses in California grew at the same rate as similar firms in Maryland and Oregon during the same period.

The difference in the growth rates of California minority-owned businesses (MBEs) and WBEs compared to those of the policy-neutral or policy-enhanced states, Maryland and Oregon, is significant. For example, 37 percent of MBEs in Maryland and Oregon experienced significant growth from 1996 to 2001, compared to only 21 percent of MBEs in California (Fig. 1). WBEs in California were also likely impacted negatively by

Statistics Refresher:

A result that is significant at the $p = 0.05$ level means that there is a 95% chance that the difference reported is representative of the entire population of firms.

A result that is significant at the $p = 0.01$ level means that there is a 99% chance that the difference reported is representative of the entire population of firms.

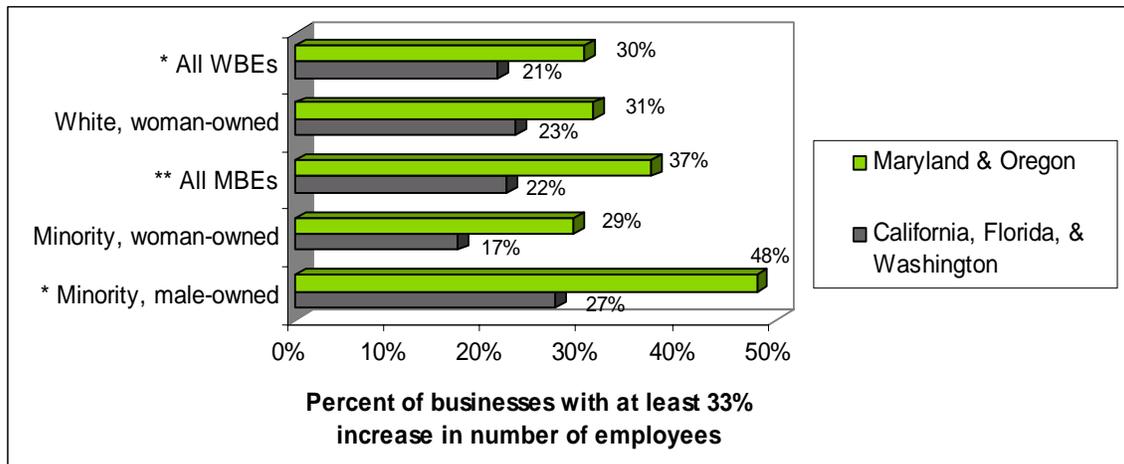
Proposition 209, as their business growth rate is lower than that of WBEs in the comparison states.

The disparity was greatest among women of color business owners. Only 11 percent of minority-, women-owned businesses in California experienced significant growth from 1996 to 2001, the lowest rate of all sub-groups, compared to nearly three times as many similar firms in Maryland and Oregon (29 percent).

The research results in California were consistent with results in Washington and Florida, which ended or suspended affirmative procurement policies in 1998 and 2000, respectively. Both MBEs and WBEs in the three states had significantly lower growth rates than MBEs and WBEs in two comparison states (Maryland and Oregon). Among MBEs, 37 percent experienced significant business growth in Maryland and Oregon from 1996 to 2001, compared to only 22 percent in California, Florida, and Washington.

There was also a significant difference in the business growth rates of WBEs in the two groups, as well as among minority-, male-owned businesses.

Figure 2: Business Growth by MBE and WBE status, Policy reduction states (CA, FL, & WA) vs. Policy neutral/enhanced states (MD & OR), 1996 to 2001



* CA, FL & WA firms significantly lower than MD & OR firms (combined) at the p = 0.05 level.

** CA, FL & WA firms significantly lower than MD & OR firms (combined) at the p = 0.01 level.

Although Washington and Florida both later reintroduced voluntary supplier diversity programs, as opposed to California, the above research results likely demonstrate that not only the termination, but also the interruption of affirmative action programs can hamper the expected business growth rates of MBEs and WBEs. On the other hand, MBEs in Maryland had a significantly higher growth rate than MBEs in the other four states. Maryland was the only state to consistently have affirmative procurement policies in place during this time period, which links a consistent inclusive business program presence with higher business growth rates of MBEs and WBEs.

There were no significant differences in the growth rates of MBEs and WBEs in any of the five states from 2001 to 2007 (Fig. 12). This seems to indicate that the negative

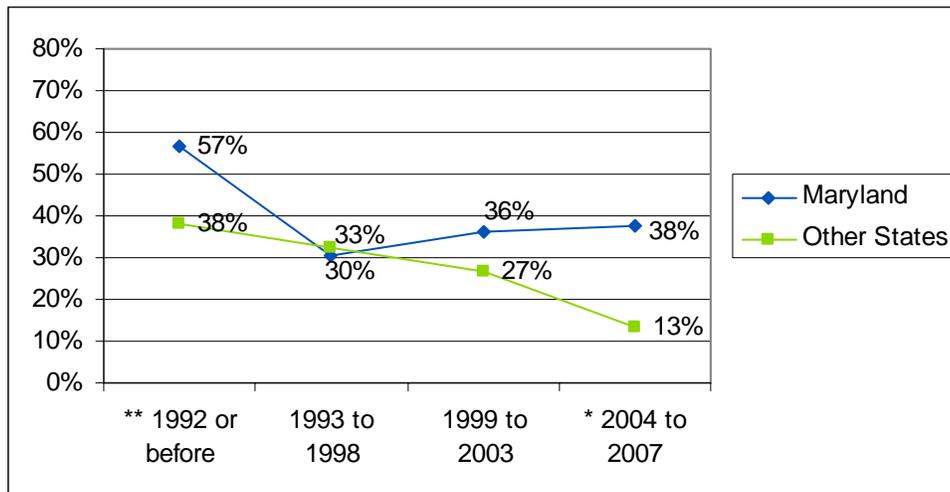
impact of ending affirmative procurement is strongest within the first few years of the policy change.

Impacts on the Size of Businesses

There is evidence that the negative impact of ending affirmative procurement is long-lasting, that is, it is not made up later in the life of MBEs and WBEs. For example, WBEs in Maryland that were at least 15 years old were larger, as measured by the percentage of firms with at least five employees, than WBEs in the other four states. Maryland was the only state, among the five studied, to consistently have affirmative procurement in place since the late 1970s and was the only of the five to enhance its affirmative procurement policy in the late 1990s.

In addition, Maryland WBEs that began operations in 2004 or later were larger than WBEs in other states. Maryland significantly enhanced its affirmative procurement policies in 2004 by increasing its procurement goal. Nearly three times as many start-up WBEs in Maryland, 38 percent, had at least five employees in 2007, than start-up WBEs in the other four states, 13 percent.

Figure 3: Portion of WBE Businesses with At Least 5 Employees by Year of Business Start-up, by State, Women-owned Business Enterprises



* Significantly higher than other states (combined) at the $p = 0.05$ level.

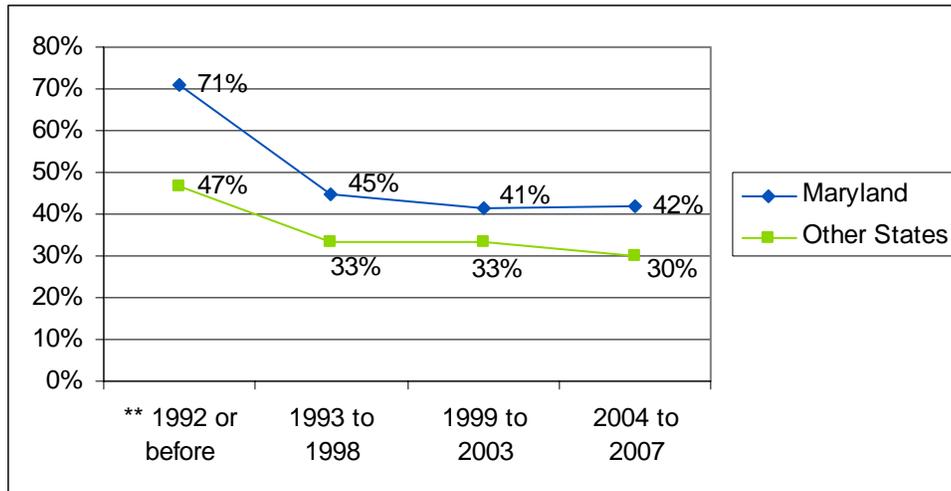
** Significantly higher than other states (combined) at the $p = 0.01$ level.

Figure 3 also demonstrates that the link between inclusive business programs in Maryland and larger firm size was not strong among all groups of WBE businesses, by age. There was no statistical difference in business size among businesses that were started up between 1993 and 2003. This may be due to small sample size or to weaker articulation of the Maryland inclusive business program over time among WBEs of that age cohort.

Similar to WBEs, minority-owned businesses in Maryland that were at least 15-years-old, were larger than MBEs in other states (Fig. 4). Over 70 percent of well-established MBEs in Maryland had at least five employees in 2007, compared to only 47 percent in

the other four states. This may indicate that a consistent affirmative procurement program, such as in Maryland, may have a cumulative and long-standing positive impact on the growth rate of MBEs and WBEs.

Figure 4: Portion of MBE Businesses with At Least 5 Employees by Year of Business Start-up, by State, Minority-owned Business Enterprises



** Maryland significantly higher than other states (combined) at the p = 0.01 level.

Consistent with the findings presented earlier, it appears that ending or interrupting affirmative procurement impacts formative or start-up firms the most. For example, Washington WBEs that were at a formative stage when Initiative 200 was passed in November 1998 were significantly smaller in 2007 than similarly-aged WBEs in the other four states (Fig. 15). Only 19 percent of the Washington WBEs started between 1993 and 1998, had at least five employees in 2007, compared to 41 percent in Florida and Oregon. Likewise, MBEs in Washington that started operations in the five years following Initiative 200's passage, that is between 1999 and 2003, were less likely to have five employees in 2007 than MBEs in the other four states (Fig. 16).

APPENDIX: DATA TABLES

Figure 5: Random Sample – Number of Firms by State and by M/WBE Status				
State	Minority-Owned	Woman-Owned	White-/Male-Owned	Total
California	240	240	288	768
Maryland	180	180	200	560
Oregon	120	120	136	376
Florida	120	120	136	376
Washington	200	200	240	640
TOTAL	860	860	1,000	2,720

Note: White- male-owned firms were included as the control group for this study. Two firms were eliminated from the sample due to extreme variances in their number of employees and a change in their primary industry code between 2001 and 2007, calling into question whether it was the same principal business or simply a new business that used the shell of an old business.

Figure 6: Business Growth by State, Control Group, 1996 to 2001		
	N	Percentage of white-male-owned businesses that had at least a 33% growth in employees, 1996 to 2001
California	67	19.4%
Florida	13	13.3%
Maryland	66	13.6%
Oregon	46	17.4%
Washington	33	15.2%
Total	227	16.3%

Note: No state is significantly different from any other state or from the group of other states.

Figure 7: Business Growth by State, Control Group, 2001 to 2007

	N	Percentage of white-male-owned businesses that had at least a 33% growth in employees, 2001 to 2007
California	139	16.5%
Florida	29	10.3%
Maryland	119	12.6%
Oregon	72	20.8%
Washington	115	17.4%
Total	474	16.0%

Note: No state is significantly different from any other state or from the group of other states.

Figure 8: Business Growth by State, MBEs and WBEs, 1996 to 2001

	Percentage of businesses that had at least a 33% growth in employees, 1996 to 2001			
	N	All MBEs	N	All WBEs
California	84	21%	103	18%
Florida	31	19%	38	29%
Maryland	52	40%	78	27%
Oregon	40	33%	59	34%
Washington	46	26%	67	22%
Total	253	28%	345	25%

Figure 9: Business Growth by MBE and WBE status, California, 1996 to 2001				
	California		Other States	
	N	Percentage of Businesses that had at least a 33% growth in employees	N	Percentage of Businesses that had at least a 33% growth in employees
Minority, male-owned	47	30%	79	35%
Minority, woman-owned	37	* 11%	90	27%
All MBEs	84	21%	169	31%
White, woman-owned	66	21%	152	28%
All WBEs	103	* 18%	242	28%

* Significantly lower than other states (combined) at the p = 0.05 level.

Figure 10: Business Growth by MBE and WBE status, California vs. Policy neutral or policy positive states, 1996 to 2001				
	California		Maryland & Oregon	
	N	Percentage of Businesses that had at least a 33% growth in employees	N	Percentage of Businesses that had at least a 33% growth in employees
Minority, male-owned	47	30%	40	48%
Minority, woman-owned	37	* 11%	52	29%
All MBEs	84	* 21%	92	37%
White, woman-owned	66	21%	85	31%
All WBEs	103	* 18%	152	30%

* Significantly lower than Maryland and Oregon (combined) at the p = 0.05 level.

Note: White, male-owned businesses in California grew at a rate 4 percentage points higher than their counterparts in Maryland and Oregon (not statistically different), during the same period.

Figure 11: Business Growth by MBE and WBE status, Policy negative vs. Policy neutral or policy positive states, 1996 to 2001

	California, Florida & Washington		Maryland & Oregon	
	N	Percentage of Businesses that had at least a 33% growth in employees	N	Percentage of Businesses that had at least a 33% growth in employees
Minority, male-owned	86	* 27%	40	48%
Minority, woman-owned	75	17%	52	29%
All MBEs	161	** 22%	92	37%
White, woman-owned	133	23%	85	31%
All WBEs	208	* 21%	152	30%

* Significantly lower than Maryland and Oregon (combined) at the p = 0.05 level.

** Significantly lower than Maryland and Oregon (combined) at the p = 0.01 level.

Note: White, male-owned businesses in California, Florida and Washington grew at a rate 2 percentage points higher than their counterparts in Maryland and Oregon (not statistically different), during the same period.

Figure 12: Business Growth by State, MBEs and WBEs, 2001 to 2007

	Percentage of businesses that had at least a 33% growth in employees, 2001 to 2007			
	N	All MBEs	N	All WBEs
California	161	21%	210	18%
Florida	83	16%	100	16%
Maryland	90	22%	159	14%
Oregon	85	15%	122	21%
Washington	126	25%	176	17%
Total	545	20%	767	17%

	N	1992 or before	1993 to 1998	1999 to 2003	2004 to 2007
California	602	44%	26%	20%	10%
Florida	284	32%	25%	26%	17%
Maryland	421	47%	24%	18%	12%
Oregon	297	46%	25%	21%	8%
Washington	480	34%	31%	22%	12%
Total	2,084	41%	27%	21%	11%

State	First Year of Business Operation			
	1992 or before	1993 to 1998	1999 to 2003	2004 to 2007
	Percentage of businesses with at least 5 employees			
California	41%	33%	44%	25%
Florida	53%	† 57%	38%	23%
Maryland	51%	39%	36%	33%
Oregon	49%	21%	55%	20%
Washington	35%	29%	26%	13%
Total	45%	33%	37%	23%

† Significantly higher than other states (combined) at the p = 0.05 level.

Figure 15: Portion of WBE Businesses with At Least 5 Employees by First Year of Business Operation and by State, Women-owned Business Enterprises

State	First Year of Business Operation			
	1992 or before	1993 to 1998	1999 to 2003	2004 to 2007
	Percentage of WBEs with at least 5 employees			
California	37%	36%	27%	13%
Florida	39%	41%	30%	25%
Maryland	†† 57%	30%	36%	† 38%
Oregon	44%	41%	29%	18%
Washington	35%	** 19%	22%	* 7%
Total	42%	32%	28%	19%

† Significantly higher than other states (combined) at the p = 0.05 level.

†† Significantly higher than other states (combined) at the p = 0.01 level.

* Significantly lower than other states (combined) at the p = 0.05 level.

** Significantly lower than other states (combined) at the p = 0.01 level.

Figure 16: Portion of MBE Businesses with At Least 5 Employees by First Year of Business Operation by State, Minority-owned Business Enterprises

State	First Year of Business Operation			
	1992 or before	1993 to 1998	1999 to 2003	2004 to 2007
	Percentage of MBEs with at least 5 employees			
California	46%	33%	39%	20%
Florida	43%	31%	33%	43%
Maryland	†† 71%	45%	41%	42%
Oregon	46%	42%	43%	50%
Washington	50%	29%	** 16%	24%
Total	51%	36%	35%	33%

†† Significantly higher than other states (combined) at the p = 0.01 level.

** Significantly lower than other states (combined) at the p = 0.01 level.