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Addressing Social Equity in Public Procurement

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Abstract

Procurement Services is responsible for providing the tools and business processes for acquiring goods and services at UCSC. The process includes the preparation and processing of a demand as well as the end receipt and approval of payment (Financial Services 2016). This industry has enormous potential for enacting social change on an institutional scale. However, there is also a lack of opportunity and participation for small and marginalized businesses, including those owned by minorities, women, people with disabilities, members of the LGBTQI community, etc. This perpetuates inequality seen in the marketplace and contributes to disparities in business outcomes over time. My research informs ways in which the University of California (UC) can offer increased access to contract opportunities and the removal of structural barriers for disadvantaged businesses. In doing this, we hope to increase social equity within public procurement, ultimately creating a more equal playing field for all competing businesses.

Keywords: social equity, procurement, public purchasing, supplier diversity

Addressing Social Equity in Public Procurement

Introduction

Common business practices leave opportunities for social neglect and economic inequality to perpetuate themselves if left unaddressed by individuals within institutions. Disparities in the contracts awarded to larger businesses in comparison to the number of contracts awarded to small businesses owned by minorities, veterans, women, people with disabilities, and members of the LGBTQI community attest to the need for clear action in public procurement. Due to the nature of government participation in the market as both purchaser and as regulator, it is necessary to use purchasing power to achieve desired social outcomes. Incorporating social responsibility and equitable inclusion within business competition stabilizes markets, diversifies spend, and improves overall standard of living. Despite resistance to social equity goals in policy, there is a long history of government contracting as a tool of social regulation called linkage or 'conditionality'. For example, policy implementation like selective purchasing can be used to achieve goals otherwise not addressed in the supply chain. Awarding contracts based on factors like the contractor's qualifications and the contract's definition can make up for market disparities (Mccrudden 2004). Reviewing procurement practices to align with local economic development objectives, aiming to be user friendly to small businesses, and providing support for entrepreneurs are some recommended strategies to improve entry for Minority and Women Owned Business Enterprises (MWBE) in the public sector. Other methods include: facilitating more dialogue, implementing standards for the profession, collaborating across organizations, and giving reward and recognition to exemplary achievement at bridging the policy-to-practice gap (Short 2006). However, oftentimes the need for access to cash flow

outside of contracts is an underestimated resource for suppliers. Supplier diversity programs should also include active dissemination, support programs, and an 'access to finance' element in order to support small, minority and women owned businesses (Ram, Smallbone 2003). In order to remedy potential market failures and achieve a more equitable playing field, the procurement industry must take active steps to recognize the current state of affairs and what steps can be taken to achieve a more equitable and competitive market.

Project Description

My project focused on implementing a standardized supplier equity program for local businesses and historically underutilized businesses within the UC system, including Minority & Women Owned Business Enterprises (MBE, WBE), Disadvantaged Business Enterprises (DBE), Disabled Veteran Owned Businesses (DVOB), and Lesbian, Gay, Bisexual, & Transgender Owned Businesses (LGBTBE). In order to do this, the project depends upon research and analysis of the causes of procurement disparities within the United States and the University of California. I used this data to write a complete report of my findings and consequential recommendations for use within the University of California. This report includes details regarding the impact and causes of lack of social equity in procurement, the history of public purchasing, leading global practices in diversifying businesses, and program opportunities for UC Procurement.

Negative impacts of supplier rationalization include low retention rates, inefficient exclusion, income disparities, and intensified markets. These markets are not reflective of the communities they represent, leading to increased tendencies to perpetuate inequalities. For example, it was found that the annual average wages for African-Americans in 2006-2008 in the

constructions sector were 53 percent lower in the Houston market area than for nonminority males, despite similarities in location, industry, age, and education. Evidence shows that market participation is significantly lower than the availability of minority and women owned businesses in the Houston area (J. W., C. H., & K. D. 2012). This indicates that the presence of discrimination and barriers to full and fair participation continue to interfere with local economies. In turn, this leads to differing points of access and ease for small businesses based off of income availability and prior experience.

In order to remove structural inequalities from the public sector, we must look to both failed and successful purchasing initiatives. In Virginia, Old Dominion University provides opportunities to SWAM (Small, Women- and Minority-Owned) business enterprises by training purchasing staff in supplier diversity, making marketing materials and procurement documents easily available, and designating a SWAM champion in procurement. This encourages participation by directly addressing barriers of access and leads to improved business outcomes in the future. Other policies that ignore deeper issues of discrimination and marginalization can fail to engage small and disadvantaged businesses, causing further economic disparities. Portland's well-intentioned sheltered market program resulted in 51 percent of $91 million in construction contract awards going to businesses owned by nonminority men (Har 2010). Unsuccessful diversity initiatives can increase barriers to entry for contractors if the implementation has uneven training, narrow focus, or a lack of data tracking.

Increased opportunities for MBE, WBE, DBE, DVOB, and LGBTBE are indicators of success in this project. We want to be able to measure supplier participation in order to improve and set goals for long-term growth. These results will be presented to UCSC Procurement staff

and other major UC players, including the Office of the President, in order to highlight the need for this work in sourcing university suppliers. By analyzing specific data gathered over the years, we can better identify sources of discriminatory purchasing behavior and systematic barriers. In turn, this lays the groundwork for effective initiatives and healthy goal setting. We hope that in doing this work, we can make active steps to bridge the gap in procurement policy and practices, ultimately using the powerful industry of institutional purchasing to influence equity and inclusion in our communities.

Project Goals Timeline (2016-2017)

- October
    - Define major terms of procurement equity
    - Meet with on-campus faculty & organizations for resources
- November
    - Review small business and buyer diversity
    - Review history and development of UC systemwide and UCSC specific policy
- December
    - Document best practices & trends in procurement industry
    - Explore history of public procurement and reported disparities
- January
    - Identify leading practices in procurement equity worldwide
    - Compare standard practices in procurement equity within the United States
- February
    - Consolidate research into outline of final paper

    - Meet with other sustainability initiatives for perspective
- March
    - Synthesize current research
- April
    - Introduce comprehensive critique of current procurement practice
- May
    - Expand and recommend opportunities for equitable procurement
- June
    - Produce Final Paper
- Ongoing
    - Present project to major UC players

Roles of Stakeholders

Darin Matthews, my mentor is the Director of Procurement. His goals in UCSC Procurement are to promote values and principles at UCSC by identifying practices that can help ensure fairness, equity, and diversity of spend. Darin also hopes to achieve system-wide sustainability as a member of the UC Sustainability Committee. This committee includes other UC players like those working in the Office of the President and in supplier diversity at UC San Francisco and UC Berkeley. However, these findings will also be relevant to local businesses and Chambers of Commerce in Santa Cruz as our colleagues in UCSC Procurement implement practices that will benefit them in sourcing contracts.

Measurable Results

Timely completion of the final report, in addition to increased opportunities and spend for Minority & Women Owned Business Enterprises (MBE, WBE), Disadvantaged Business Enterprises (DBE), Disabled Veteran Owned Businesses (DVOB), and Lesbian, Gay, Bisexual, & Transgender Owned Businesses (LGBTBE), will be indicators of success in this project. We want to be able to measure supplier participation in order to improve and set goals for long-term growth. Behavior change policy, data collection, and analysis will be included through 4-5 equitable practices not executed at UC, 10 reported disparity reports within public procurement, and 3-5 examples of both local and national small business programs.

While I anticipated reading 10 disparity studies, I only read 4 due to the volume of the information. These disparity studies provided the data needed to better understand and relay the problem of inequitable access in purchasing. I also looked for leading regional, national, and international examples in procurement equity and supplier diversification. This research, in addition to interviews with supplier diversity advocates and UCSC Procurement staff, provided me with several avenues for improvement within public contracting. I found more than 5 equitable practices not executed at UCSC, but divided them accordingly.

The result of this project is a detailed report of the best practices and recommendations for both UC Santa Cruz Procurement and the UC Office of the President. Suggested opportunities for small and disadvantaged business engagement include changes in policy, culture, outreach, accessibility, and future research. I plan on presenting this project in the following year and continuing my work with suppliers.

References

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A first-ever audit of a Portland program aimed at hiring more minorities and women for public construction projects shows that 51 percent of the money has gone instead to businesses owned by white men.

J. W., C. H., & K. D. (2012, April 18). The State of Minority- and Women Owned Business Enterprise in Construction: Evidence from Houston (Rep.). Retrieved January 7, 2017, from NERA Economic Consulting website: http://www.houstontx.gov/obo/disparitystudyfinalreport.pdf

The study finds both statistical and anecdotal evidence of business discrimination against M/WBEs in the Houston City's relevant market area.

Mccrudden, C. (2004). Using public procurement to achieve social outcomes. Natural Resources Forum, 28(4), 257-267. doi:10.1111/j.1477-8947.2004.00099.x

Describes the process of linkage and outlines the historical trends within public procurement.

Ram, M., & Smallbone, D. (2003). Supplier diversity initiatives and the diversification of ethnic

minority businesses in the UK. Policy Studies, 24(4), 187-204. doi:10.1080/0144287042000216117

Case studies of two types of supplier diversity initiatives are drawn upon to inform this assessment: purchaser initiatives, from both the public and private sector; and intermediary or business-to-business brokerage type initiatives that attempt to facilitate the access of EMBs to potential contract opportunities.

Short, D. C. (2006). Closing the gap between research and practice in HRD. Human Resource Development Quarterly, 17(3), 343-350. doi:10.1002/hrdq.1178

Details the main steps you would take to close the gap between HRD research and practice.

Appendices