This product is part of the RAND Corporation technical report series. Reports may include research findings on a specific topic that is limited in scope; present discussions of the methodology employed in research; provide literature reviews, survey instruments, modeling exercises, guidelines for practitioners and research professionals, and supporting documentation; or deliver preliminary findings. All RAND reports undergo rigorous peer review to ensure that they meet high standards for research quality and objectivity.

TECHNICAL
REPORT

The Utilization of Women-Owned Small Businesses in Federal Contracting

Elaine Reardon, Nancy Nicosia,
Nancy Y. Moore

Prepared for the Small Business Administration

RAND
Kauffman-RAND Institute for
Entrepreneurship Public Policy

This study was undertaken in response to a request by the SBA for the RAND Corporation to provide different measures of WOSB representation in federal contracting, by industry. The work was funded by the SBA and completed under the auspices of the RAND Labor and Population program and the Kauffman-RAND Institute for Entrepreneurship Public Policy.

Library of Congress Cataloging-in-Publication Data

Reardon, Elaine.
The utilization of women-owned small businesses in federal contracting / Elaine Reardon, Nancy Nicosia, Nancy Moore.
p. cm.
Includes bibliographical references.
ISBN 978-0-8330-4166-1 (pbk. : alk. paper)
1. Public contracts—United States. 2. Women-owned business enterprises—United States. I. Nicosia, Nancy. II. Moore, Nancy Y., 1947– III. Title.

HD3861.U6R43 2007
352.5'3082—dc22

2007016169

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

RAND® is a registered trademark.

Published 2007 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665
RAND URL: http://www.rand.org
To order RAND documents or to obtain additional information, contact
Distribution Services: Telephone: (310) 451-7002;
Fax: (310) 451-6915; Email: order@rand.org

Summary

In 2000, the Small Business Reauthorization Act (Public Law 106-554, Section 811) authorized contracting officers to restrict competition for federal contracts on a discretionary basis in certain industries to women-owned small businesses (WOSBs). These industries are determined by the Small Business Administration (SBA) to be characterized by underrepresentation or substantial underrepresentation of WOSBs in federal prime contracts. Through a series of legal decisions, especially decisions regarding minority-owned firms, underrepresentation in government contracting has come to mean that the share of contracts awarded to a particular type of firm is small relative to the prevalence of such firms in the pool of firms that are "ready, willing, and able" to perform government contracts.

This measure of underrepresentation is typically referred to as a disparity ratio. A disparity ratio of 1.0 suggests that firms of a particular type are awarded contracts in the same proportion as their representation in the industry—that is, there is no disparity. A disparity ratio of less than 1.0 suggests that the firms are underrepresented in federal contracting, and a ratio greater than 1.0 suggests that they are overrepresented.

Measuring Disparity Ratios in Federal Contracting

The SBA asked RAND to compute disparity ratios for WOSBs based on both the dollar value and the number of contracts awarded to WOSBs. The SBA also requested that RAND define the population of firms that are ready, willing, and able to perform federal contracts in two ways: (1) as the population of all firms in the economy and (2) as the population of firms that have registered as potential bidders for federal contracts. Thus, in this report, we present disparity ratios computed in four ways: ratios based on number of contracts and on contract dollars in which the population of ready, willing, and able firms is essentially all firms, and ratios based on number of contracts and contract dollars in which the population of ready, willing, and able firms is all firms that have registered as potential bidders for federal contracts. We also explored whether there was a subset of smaller contract sizes (such as contracts under $100,000) for which it might make more sense to examine small-business contracting, but we did not find evidence of such a subset.

In this study, we compute disparity ratios by industry, defined according to the North American Industry Classification System (NAICS) at the 2-, 3-, and 4-digit levels (corresponding to increasingly disaggregated industry classifications). Following SBA guidelines,

we classify WOSBs as underrepresented in industries in which the disparity ratio is between 0.5 and 0.8, and substantially underrepresented in industries in which the disparity ratio is between 0 and 0.5.

Data

We used three datasets to compute the four types of disparity ratios. The Federal Procurement Data System (FPDS) contains data on federal prime contracts over a certain size. These data can be used to compute the value of federal contracts awarded to WOSBs and all other firms. We use FPDS data from three fiscal years (FYs): FY02, FY03, and FY05. The Central Contractor Registry (CCR) lists the firms that have registered with the federal government in anticipation of bidding on federal contracts. With these data, we computed the number of ready, willing, and able WOSBs and the number of all ready, willing, and able businesses. Because the CCR data are not archived, we used the October 2006 file to compare with the most recent available contracting data in the FY05 FPDS. Finally, we constructed measures of the total number of employer businesses and women-owned employer businesses in the population, using the 2002 Survey of Business Owners (SBO), part of the 2002 Economic Census.

We did not make any adjustments to the official NAICS industry groupings; thus, dissimilar industries sometimes fall into the same code. (For example, NAICS code 6115 includes cosmetology schools as well as flight-training schools.) Finally, only industries with samples large enough to calculate significant differences across groups were analyzed.

Key Findings

We found that the measurement of whether WOSBs are underrepresented in federal contracting is sensitive to whether contract awards are measured in dollars or in number of awards and to whether the population of ready, willing, and able firms comprises essentially all employer firms or just those firms that have registered as potential bidders on federal contracts. Depending on the measure used, underrepresentation of WOSBs in government contracting occurs either in no industries or in up to 87 percent of industries. The variation is especially large in the measures that use contract dollars rather than number of contracts. This report does not advocate a particular measure. Rather, it highlights industries where disparities occur and discusses how the identification of these industries varies depending on the methodology used and on data limitations.