

Diversity in government contracts still falls short of equal opportunity for disadvantaged firms

October 9 2023, by Jeff Karoub



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When it comes to government contracts, diversity doesn't necessarily translate into equity, according to a University of Michigan study.

Research by Benjamin Rosa, assistant professor of business economics and [public policy](#) at U-M's Ross School of Business, finds efforts abound to create a level playing field on which firms from [disadvantaged backgrounds](#) have an equal opportunity to compete for contracts—but buyers may still discriminate within the [disadvantaged group](#).

The key, according to Rosa's study, is network access: Government agencies and prime contractors favor working with known or established firms. An equally capable but unknown, disadvantaged firm might be overlooked, and affirmative action policies for disadvantaged firms may not reliably correct these inequities.

For his research, Rosa focused on construction contracts issued by the state of New Mexico between January 2008 and January 2015 for the maintenance, construction and reconstruction of transportation systems. He said he chose this particular area because the state had a Disadvantaged Business Enterprise program at the time that used race-conscious contract goals.

The study finds in the majority of types of work, the contract awards are highly concentrated, implying that a few disadvantaged firms win most of the deals. In four categories (painting, signing, fencing and concrete), the top three firms that were part of the program won anywhere from about 70% to 98% of all awards.

"This study made me question whether meeting contract award goals truly corresponds to equity in contracting," Rosa said.

As in [labor markets](#), the study notes government contracting has been subject to affirmative action policies for decades with an aim of fixing past and present forms of discrimination. However, it's competition between contractors that determines incentives to become qualified in contracting, as opposed to potential earnings differences that drive

incentives in a [labor market](#).

Such competition, the study concludes, "creates several challenges for implementing corrective policies." Rosa advises [government agencies](#) to consider concentration within disadvantaged groups along with [contract award goals](#) when evaluating equity in contracting.

The data analyzed in the research precedes this year's U.S. Supreme Court's ruling on affirmative action. Although it was focused on school admissions—race cannot be a factor in college and university admissions decisions—Rosa says there has been an impact on government contracting programs.

He cites a Small Business Administration program that provides training to socially and economically disadvantaged firms, which used to automatically equate race with social disadvantage. A judge recently struck down the provision, leaving minority-owned firms to prove they are at a social disadvantage to qualify for the program.

As for the types of contracts used in his study, Rosa said he wouldn't be surprised if they are eventually challenged as a result of the high court's ruling.

The study, "Diversity versus equity in government contracting," has been submitted for publication.

More information: Study (PDF): Diversity versus Equity in Government Contracting: drive.google.com/file/d/1hmTIW...8tlkZquX6rDGxEt/view

Provided by University of Michigan

Citation: Diversity in government contracts still falls short of equal opportunity for disadvantaged firms (2023, October 9) retrieved 28 April 2024 from <https://phys.org/news/2023-10-diversity-falls-short-equal-opportunity.html>

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