IMPACT OF PREFERENTIAL PROCUREMENT POLICIES ON MINORITY-OWNED BUSINESSES

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Financial data on minority firms that compete for business in government and corporate set-aside programs reveal that these firms lag behind their nonminority counterparts in important respects. They are, relative to nonminorities, (1) less profitable, (2) younger, and (3) much more highly leveraged. Large-scale minority enterprises are no longer the rarity that they were 20 years ago. These firms have not, however, achieved parity with their nonminority cohorts, and their unique traits—especially undercapitalization—continue to reflect the vestiges of discrimination.

The use of "set-asides" and procurement dollars targeted to minority firms by corporations and government units has grown by leaps and bounds in the past decade. Corporate members of the National Minority Supplier Development Council, for example, claim to have purchased $5.3 billion in goods and services from minority-owned businesses during 1982. A major element of the procurement approach is the Small Business Administration's 8(a) program, which awarded $2.3 billion in contracts to disadvantaged, predominantly minority firms in 1983. Set-asides, typified by the 1977 Local Public Works Employment Act earmarking $400 million worth of local public works for minority enterprise, are increasingly being utilized by local governments in the 1980s. Reflecting the growing political power of blacks and Hispanics in many central cities, procurement programs targeted to minority firms have proliferated in recent years. A recent study of 33 major cities found that only three—Boston, St. Louis, and San Francisco—had no major or significant programs for minority business development. New York, Chicago, Los Angeles, Philadelphia, Detroit, New Orleans, Dallas, and Minneapolis
are among the large cities that have shown "major support for minority business development activities."  

This study examines various major types of set-asides and procurement programs. Inconsistencies in the lines of justification for minority business set-asides are identified and analyzed. The most fundamental conflict concerns the question of who should be the target recipients—the most deprived minorities versus those whose prospects of business success are greatest. The first approach entails using minority business aid as a redistributive poverty program for assisting entrepreneurs who are in dire economic straits. The second approach entails encouraging business creation and expansion, usually by those who already possess the traits of successful entrepreneurs, such as managerial experience, strong education credentials, and generally above-average incomes.

This study examines a group of over 1,000 minority firms that are either actual or potential participants in government and corporate-sponsored minority set-aside programs. These larger-scale minority enterprises are the ones that have benefited most from set-asides, and they cannot—as a group—be accurately characterized as "deprived." The question that invariably arises when assistance accrues to higher-income minority entrepreneurs is this: why help those who are already successful? The response to the objection is straightforward. These rapidly growing, economically viable firms promote economic development by creating jobs in minority communities. Their profits support investments that, in turn, permit further business expansion and job creation. The presence of business success stories lures younger, better-educated minorities into self-employment, thus further promoting the economic development thrust of minority entrepreneurship. Similarly, existing minority-owned firms in less profitable lines of business are induced—by the success story phenomenon—to reorient their operations to areas that offer greater profit potential; once again, economic development is promoted. All of the above describe the process whereby the vestiges of discrimination are gradually overcome, allowing minority enterprise to approach parity with the nonminority entrepreneur universe.

Although the findings of this study are largely supportive of minority business set-asides, one type of program—which focuses on helping the truly deprived entrepreneur—has been unsuccessful. Most viable firms participating in this type of program are run by individuals who are not particularly disadvantaged; the truly disadvantaged participants, in contrast, fail in droves. Successful minority business set-aside programs award contracts through bidding processes whereby the more efficient minority concerns are most likely to receive contracts.